

CITY OF NORWAY
AUDITED FINANCIAL STATEMENTS
NORWAY, MICHIGAN

Fiscal Year Ended June 30, 2008

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Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, Michigan 49870

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Norway, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Oak Crest Golf Club, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Oak Crest Golf Club, Inc. is based on the report of the other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan, as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Norway, Michigan's basic financial statements. The introductory section and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.


Certified Public Accountant

December 1, 2008

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 1.5% from a year ago - increasing from \$21.464 million to \$21.780 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$566 thousand during the year. This is attributed to a decrease in both federal and state grant funding while experiencing mostly an inflationary increase in expenses. The business-type activities experienced a \$882 thousand increase in net assets, primarily as a result of charge increases and the limitations put on spending with the exception of the capital projects that were undertaken and capitalized. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|-----------------|-----------------------------|-----------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current Assets | \$ 1,513 | \$ 1,448 | \$ 1,749 | \$ 1,264 | \$ 3,262 | \$ 2,712 |
| Noncurrent Assets | <u>15,406</u> | <u>16,086</u> | <u>21,129</u> | <u>15,035</u> | <u>36,535</u> | <u>31,121</u> |
| Total Assets | \$ 16,919 | \$ 17,534 | \$ 22,878 | \$ 16,299 | \$ 39,797 | \$ 33,833 |
| Long-Term Debt Outstanding | \$ 4,698 | \$ 5,000 | \$ 9,829 | \$ 4,383 | \$ 14,527 | \$ 9,383 |
| Other Liabilities | <u>1,031</u> | <u>779</u> | <u>2,460</u> | <u>2,207</u> | <u>3,491</u> | <u>2,986</u> |
| Total Liabilities | <u>\$ 5,729</u> | <u>\$ 5,779</u> | <u>\$ 12,289</u> | <u>\$ 6,590</u> | <u>\$ 18,018</u> | <u>\$ 12,369</u> |
| Net Assets | | | | | | |
| Invested in Capital Assets-Net of Debt | \$ 10,076 | \$ 10,250 | \$ 6,549 | \$ 8,753 | \$ 16,625 | \$ 19,003 |
| Restricted | 484 | 741 | 2,381 | 566 | 2,865 | 1,307 |
| Unrestricted | <u>630</u> | <u>765</u> | <u>1,660</u> | <u>389</u> | <u>2,290</u> | <u>1,154</u> |
| Total Net Assets | \$ 11,190 | \$ 11,756 | \$ 10,590 | \$ 9,708 | \$ 21,780 | \$ 21,464 |

Unrestricted net assets - the part of net assets that can be used to finance day to day operations, decreased by \$135 thousand during the year for the governmental activities. This represents a decrease in the unrestricted fund balance of 17.6%. The current level of unrestricted net assets for

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

our governmental activities stands in at \$630,000. The beginning balance of unrestricted fund balance has been restated as explained in footnote C.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|----------------------------|------------|-----------------------------|--------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Program Revenues | | | | | | |
| Charges for Services | \$ 254 | \$ 181 | \$ 6,520 | \$ 5,502 | \$ 6,774 | \$ 5,683 |
| Operating Grants and Contributions | 319 | 487 | 33 | 40 | 352 | 527 |
| Capital Grants and Contributions | 152 | 726 | 28 | 300 | 180 | 1,026 |
| General Revenues | | | | | | |
| Property Taxes | \$ 1,100 | \$ 946 | \$ 0 | \$ 0 | \$ 1,100 | \$ 946 |
| State-Shared Revenues | 310 | 311 | 0 | 0 | 310 | 311 |
| Unrestricted Investment Earnings | 241 | 227 | 165 | 25 | 406 | 252 |
| Fines and forfeitures | 7 | 6 | 0 | 0 | 7 | 6 |
| Sale of property | 32 | 0 | 0 | (2) | 32 | (2) |
| Transfers and Other Revenue | <u>613</u> | <u>647</u> | <u>(502)</u> | <u>495</u> | <u>111</u> | <u>1,142</u> |
| Total Revenues | \$ 3,028 | \$ 3,531 | \$ 6,244 | \$ 6,360 | \$ 9,272 | \$ 9,891 |
| Program Expenses | | | | | | |
| General Government | \$ 954 | \$ 819 | \$ 0 | \$ 0 | \$ 954 | \$ 819 |
| Public Safety | 616 | 727 | 0 | 0 | 616 | 727 |
| Public Works | 1,689 | 1,662 | 0 | 0 | 1,689 | 1,662 |
| Recreation & Culture | 64 | 57 | 0 | 0 | 64 | 57 |
| Interest on Long-Term Debt | 271 | 270 | 0 | 0 | 271 | 270 |
| Oak Crest Golf Course | 0 | 0 | 414 | 382 | 414 | 382 |
| Public Utilities | <u>0</u> | <u>0</u> | <u>4,948</u> | <u>4,336</u> | <u>4,948</u> | <u>4,336</u> |
| Total Expenses | \$ 3,594 | \$ 3,535 | \$ 5,362 | \$ 4,718 | \$ 8,956 | \$ 8,253 |
| Change in Net Assets | \$ (566) | \$ (4) | \$ 882 | \$ 1,642 | \$ 316 | \$ 1,638 |

The City's net assets remain at a very low level and continued to decrease this year. This can be attributed to aggressive spending in prior years using primarily debt financing without increasing revenues and current year capital purchases being financed with additional debt and some grant revenue. Some new businesses have located in the City and construction continued at a steady pace this past year.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Governmental Activities

The City's total governmental revenues decreased by approximately \$503 thousand due primarily to the capital grants received in the prior fiscal year.

Cash expenditures increased approximately \$59,000 during the year. This was primarily due to inflationary increases and continued limitations on capital spending.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television and internet services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City owns and operates Oak Crest Golf Course in conjunction with Oak Crest Golf Club, Inc. The City provides water and sewer services to residents, which come from the City's own systems. The Electric Fund saw its revenues increase due to a full year of the rate increase as required by its revenue bond ordinance. Television/Internet, Water and Sewer revenues stayed relatively stagnant during the year. Golf course revenues decreased due to decreased memberships. Expenses in Television/Internet, Golf, Water and Sewer Funds are stayed relatively constant with the prior year. The Electric Fund expenses rose due to increase in the amount and rate of purchased power.

The City's Funds

Analysis of the City's major funds begins on page 13, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2007-2008 include the General Fund, Major Streets, Local Streets, Downtown Development Authority, Capital Projects, Debt Service and each of the business type funds.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

The additional major fund for 2007-2008 is the Debt Service Fund which accounts for revenues restricted for debt service along with the various debt service and lease payments.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

General Fund Budgetary Highlights

Over the course of the year, the City Board amended the budget to take into account events during the year. In the General Fund, the most significant revenue changes was in Sale of Property which increased to accommodate the actual increase in revenues. The Transfers Out expenditures line increased due to required matching funds required by grant for local street construction.

Capital Asset and Debt Administration

At the end of the 2007-2008 fiscal year, the City had more than \$32 million invested in a broad range of capital assets that are being systematically depreciated over the estimated useful lives of the various assets. These include snow removal equipment, police and fire equipment, land, buildings, community television/internet system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2007-2008 fiscal year exceeded \$10.7 million. These roads are maintained by the City with the costs recorded in the major and local street funds.

The capital acquisitions during the year were partially financed with grants and additional loans totaling \$461,000 in the governmental funds and nearly \$4.5 million in the business type funds. The borrowed funds were used to continue the major improvements to the City's Electric Utility.

After the end of the fiscal year, the City executed \$1.0 million in CREB bonds. These funds will be used as additional financing for the Electric Utility improvements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2008-2009 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures and previously approved millage designated for roads and fire equipment. Because of the impact of Proposal A and a precarious cash position, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

The City assessed the restricted Street and Fire Truck millage for the first time in the 2007-2008 year and use the collections to service the debt associated with street repairs and improvements. The City has attempted to obtain grant funding to upgrade the subsurface utilities as the roads are being completed.

CITY OF NORWAY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

The contracts with the engineer and general contractor working on the hydroelectric power upgrades both call for liquidated damages if certain time tables are not adhered to. As of the end of the fiscal year, both contracts were severely delinquent. The City has estimated the liquidated damages as of the end of the fiscal year but not recorded the amounts in its financial statements.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2008

| | PRIMARY GOVERNMENT | | | |
|---|----------------------------|-----------------------------|---------------|-------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | COMPONENT UNIT |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and equivalents | \$ 557,432 | \$ 557,854 | \$ 1,115,286 | \$ 120,252 |
| Investments | 231,427 | 0 | 231,427 | 0 |
| Receivables - net | 240,727 | 546,755 | 787,482 | 9,447 |
| Inventory | 6,429 | 170,702 | 177,131 | 63,743 |
| Prepaid expenses | 28,524 | 27,732 | 56,256 | 0 |
| Internal balances | 448,699 | 446,132 | 894,831 | 0 |
| TOTAL CURRENT ASSETS | \$ 1,513,238 | \$ 1,749,175 | \$ 3,262,413 | \$ 193,442 |
| RESTRICTED ASSETS - Cash and equivalents | \$ 431,243 | \$ 3,156,892 | \$ 3,588,135 | \$ 0 |
| NON-CURRENT ASSETS | | | | |
| Property and equipment, net of depreciation | \$ 14,956,645 | \$ 17,876,473 | \$ 32,833,118 | \$ 0 |
| Other | 17,667 | 95,805 | 113,472 | 0 |
| TOTAL NON-CURRENT ASSETS | \$ 14,974,312 | \$ 17,972,278 | \$ 32,946,590 | \$ 0 |
| TOTAL ASSETS | \$ 16,918,793 | \$ 22,878,345 | \$ 39,797,138 | \$ 193,442 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 181,128 | \$ 234,085 | \$ 415,213 | \$ 23,465 |
| Accrued and other liabilities | 86,709 | 281,052 | 367,761 | 49,147 |
| Interprogram payables | 448,224 | 446,132 | 894,356 | 0 |
| Current part of non-current liabilities | 315,002 | 427,957 | 742,959 | 0 |
| TOTAL CURRENT LIABILITIES | \$ 1,031,063 | \$ 1,389,226 | \$ 2,420,289 | \$ 72,612 |
| LIABILITIES PAYABLE FROM RESTRICTED ASSETS | \$ 0 | \$ 1,070,034 | \$ 1,070,034 | \$ 0 |
| NON-CURRENT LIABILITIES | | | | |
| Compensated absences | \$ 132,118 | \$ 0 | \$ 132,118 | \$ 0 |
| Bonds payable | 4,565,898 | 0 | 4,565,898 | 0 |
| Revenue bonds payable | 0 | 9,829,396 | 9,829,396 | 0 |
| TOTAL NON-CURRENT LIABILITIES | \$ 4,698,016 | \$ 9,829,396 | \$ 14,527,412 | \$ 0 |
| TOTAL LIABILITIES | \$ 5,729,079 | \$ 12,288,656 | \$ 18,017,735 | \$ 72,612 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 10,075,746 | \$ 6,549,086 | \$ 16,624,832 | \$ 0 |
| Restricted for | | | | |
| Prepaid expenses | 28,524 | 27,732 | 56,256 | 0 |
| Inventory | 6,429 | 170,702 | 177,131 | 63,743 |
| Bond discount | 17,667 | 95,805 | 113,472 | 0 |
| Capital improvements | 431,243 | 2,086,858 | 2,518,101 | 14,611 |
| Unrestricted | 630,106 | 1,659,506 | 2,289,612 | 42,476 |
| TOTAL NET ASSETS | \$ 11,189,715 | \$ 10,589,689 | \$ 21,779,404 | \$ 120,830 |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS | | | |
|---|---------------------|----------------------------|--|--|---|-----------------------------|-----------------------|--------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | PRIMARY GOVERNMENT | | | COMPONENT UNIT |
| | | | | | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Governmental Activities | | | | | | | | |
| General government | \$ 954,175 | \$ 0 | \$ 872 | \$ 0 | \$ (953,303) | | \$ (953,303) | |
| Public safety | 616,627 | 76,743 | 4,736 | 0 | (535,148) | | (535,148) | |
| Public works | 1,688,902 | 177,572 | 312,869 | 104,900 | (1,093,561) | | (1,093,561) | |
| Recreation and culture | 63,672 | 0 | 0 | 47,347 | (16,325) | | (16,325) | |
| Interest and fees on long-term debt | 270,986 | 0 | 0 | 0 | (270,986) | | (270,986) | |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 3,594,362 | \$ 254,315 | \$ 318,477 | \$ 152,247 | \$ (2,869,323) | | \$ (2,869,323) | |
| Business-Type Activities | | | | | | | | |
| Television | \$ 758,776 | \$ 830,207 | \$ 0 | \$ 0 | | \$ 71,431 | \$ 71,431 | |
| Electric | 2,917,737 | 3,791,257 | 0 | 0 | | 873,520 | 873,520 | |
| Oak Crest Golf Course | 414,081 | 395,644 | 0 | 0 | | (18,437) | (18,437) | |
| Water | 640,218 | 786,902 | 33,000 | 12,981 | | 192,665 | 192,665 | |
| Sewer | 631,607 | 715,849 | 0 | 14,682 | | 98,924 | 98,924 | |
| TOTAL BUSINESS-TYPE ACTIVITIES | \$ 5,362,419 | \$ 6,519,859 | \$ 33,000 | \$ 27,663 | | \$ 1,218,103 | \$ 1,218,103 | |
| Component Unit - Oak Crest Golf Club, Inc. | \$ 463,895 | \$ 413,703 | \$ 0 | \$ 0 | | | | \$ (50,192) |
| GENERAL REVENUES | | | | | | | | |
| Property taxes | | | | | \$ 1,100,287 | \$ 0 | \$ 1,100,287 | \$ 0 |
| State shared revenues and grants | | | | | 309,698 | 0 | 309,698 | 0 |
| Unrestricted investments earnings | | | | | 241,175 | 165,444 | 406,619 | 437 |
| Fines and forfeitures | | | | | 7,069 | 0 | 7,069 | 0 |
| Other | | | | | 101,775 | 8,002 | 109,777 | 47,602 |
| SPECIAL ITEM-Gain (loss) on sale of property | | | | | 32,841 | 0 | 32,841 | 0 |
| TRANSFERS | | | | | 510,697 | (510,697) | 0 | 0 |
| TOTAL GENERAL REVENUES AND SPECIAL ITEMS | | | | | \$ 2,303,542 | \$ (337,251) | \$ 1,966,291 | \$ 48,039 |
| CHANGE IN NET ASSETS | | | | | \$ (565,781) | \$ 880,852 | \$ 315,071 | \$ (2,153) |
| Net assets - beginning (as restated) | | | | | 11,755,496 | 9,708,837 | 21,464,333 | 122,983 |
| NET ASSETS - ENDING | | | | | \$ 11,189,715 | \$ 10,589,689 | \$ 21,779,404 | \$ 120,830 |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2008

| | GENERAL FUND | MAJOR STREETS | LOCAL STREETS | DOWNTOWN DEVELOPMENT AUTHORITY | DEBT SERVICE | CAPITAL PROJECTS | NON-MAJOR MUSEUM | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|-------------------|------------------|--------------------------------------|-----------------|---------------------|---------------------|--------------------------------|
| ASSETS | | | | | | | | |
| Cash and equivalents | \$ 84,697 | \$ 152,820 | \$ 24,750 | \$ 269,844 | \$ 0 | \$ 9,493 | \$ 15,828 | \$ 557,432 |
| Taxes and accounts receivable | 38,779 | 0 | 0 | 0 | 0 | 0 | 0 | 38,779 |
| Due from other funds | 446,132 | 0 | 676 | 1,891 | 0 | 0 | 0 | 448,699 |
| Due from other governmental units | 60,371 | 33,406 | 14,261 | 0 | 0 | 93,910 | 0 | 201,948 |
| Inventory | 6,429 | 0 | 0 | 0 | 0 | 0 | 0 | 6,429 |
| Prepaid expenses | 28,524 | 0 | 0 | 0 | 0 | 0 | 0 | 28,524 |
| Bond discount | 0 | 0 | 0 | 17,667 | 0 | 0 | 0 | 17,667 |
| Investments | 231,427 | 0 | 0 | 0 | 0 | 0 | 0 | 231,427 |
| Restricted assets | 0 | 16,996 | 4,304 | 0 | 0 | 380,730 | 29,213 | 431,243 |
| TOTAL ASSETS | \$ 896,359 | \$ 203,222 | \$ 43,991 | \$ 289,402 | \$ 0 | \$ 484,133 | \$ 45,041 | \$ 1,962,148 |
| LIABILITIES | | | | | | | | |
| Accounts payable | \$ 42,334 | \$ 0 | \$ 0 | \$ 1,160 | \$ 0 | \$ 137,634 | \$ 0 | \$ 181,128 |
| Accrued payroll expense | 16,340 | 1,608 | 612 | 0 | 0 | 0 | 484 | 19,044 |
| Accrued taxes and withholdings | 4,631 | 345 | 81 | 0 | 0 | 0 | 37 | 5,094 |
| Due to other funds | 448,224 | 0 | 0 | 0 | 0 | 0 | 0 | 448,224 |
| Other liabilities | 3,400 | 0 | 0 | 0 | 0 | 0 | 0 | 3,400 |
| TOTAL LIABILITIES | \$ 514,929 | \$ 1,953 | \$ 693 | \$ 1,160 | \$ 0 | \$ 137,634 | \$ 521 | \$ 656,890 |
| FUND BALANCE | | | | | | | | |
| Reserved for | | | | | | | | |
| Prepaid expenses | \$ 28,524 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 28,524 |
| Inventory | 6,429 | 0 | 0 | 0 | 0 | 0 | 0 | 6,429 |
| Bond discount | 0 | 0 | 0 | 17,667 | 0 | 0 | 0 | 17,667 |
| Capital improvements | 0 | 16,996 | 4,304 | 0 | 0 | 0 | 0 | 21,300 |
| Unreserved | 346,477 | 184,273 | 38,994 | 270,575 | 0 | 346,499 | 44,520 | 1,231,338 |
| TOTAL FUND EQUITY | \$ 381,430 | \$ 201,269 | \$ 43,298 | \$ 288,242 | \$ 0 | \$ 346,499 | \$ 44,520 | \$ 1,305,258 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 896,359 | \$ 203,222 | \$ 43,991 | \$ 289,402 | \$ 0 | \$ 484,133 | \$ 45,041 | \$ 1,962,148 |

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008

| | |
|---|-------------------|
| Total fund balance - total governmental funds | \$ 1,305,258 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation | 14,956,645 |
| Accrued interest payable not recorded on governmental financial statements | (59,171) |
| Long term liabilities: | |
| Bonds/loans not due and payable with the current period and not reported in the funds | (4,880,900) |
| Accumulated employee vacation and personal pay not used in current period | <u>(132,118)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ | <u>11,189,715</u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
 ALL GOVERNMENTAL FUND TYPES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 Year ended June 30, 2008

| | <u>GENERAL</u> | <u>MAJOR STREETS</u> | <u>LOCAL STREETS</u> | <u>DOWNTOWN DEVELOPMENT AUTHORITY</u> | <u>DEBT SERVICE</u> | <u>CAPITAL PROJECTS</u> | <u>NON-MAJOR MUSEUM</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|---------------------|--------------------------|--------------------------|---|-------------------------|-----------------------------|-----------------------------|---|
| REVENUES | | | | | | | | |
| General property taxes | \$ 785,268 | \$ 0 | \$ 96,416 | \$ 218,603 | \$ 0 | \$ 0 | \$ 0 | \$ 1,100,287 |
| Federal grants | 0 | 0 | 104,900 | 0 | 0 | 0 | 0 | 104,900 |
| State shared revenues and grants | 315,306 | 221,336 | 91,533 | 0 | 0 | 0 | 0 | 628,175 |
| Local grants/contributions | 15,000 | 0 | 0 | 0 | 0 | 500 | 31,847 | 47,347 |
| Charges for services | 254,315 | 0 | 0 | 0 | 0 | 0 | 0 | 254,315 |
| Fines and forfeitures | 7,069 | 0 | 0 | 0 | 0 | 0 | 0 | 7,069 |
| Interest and rentals | 219,913 | 3,896 | 2,253 | 7,578 | 0 | 7,115 | 420 | 241,175 |
| Sale of property | 32,821 | 0 | 0 | 0 | 0 | 0 | 20 | 32,841 |
| Other | 22,583 | 0 | 0 | 0 | 76,615 | 0 | 2,576 | 101,774 |
| TOTAL REVENUES | \$ 1,652,275 | \$ 225,232 | \$ 295,102 | \$ 226,181 | \$ 76,615 | \$ 7,615 | \$ 34,863 | \$ 2,517,883 |
| EXPENDITURES | | | | | | | | |
| General government | \$ 748,906 | \$ 0 | \$ 0 | \$ 0 | \$ 86,952 | \$ 616 | \$ 15,032 | \$ 851,506 |
| Public safety | 577,208 | 0 | 0 | 0 | 0 | 0 | 0 | 577,208 |
| Public works | 520,767 | 254,084 | 108,404 | 41,053 | 0 | 0 | 0 | 924,308 |
| Recreation | 58,426 | 0 | 0 | 0 | 0 | 0 | 0 | 58,426 |
| Debt service | 0 | 0 | 0 | 130,882 | 362,644 | 0 | 0 | 493,526 |
| Capital outlay | 25,918 | 0 | 243,553 | 0 | 0 | 191,286 | 0 | 460,757 |
| TOTAL EXPENDITURES | \$ 1,931,225 | \$ 254,084 | \$ 351,957 | \$ 171,935 | \$ 449,596 | \$ 191,902 | \$ 15,032 | \$ 3,365,731 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ (278,950) | \$ (28,852) | \$ (56,855) | \$ 54,246 | \$ (372,981) | \$ (184,287) | \$ 19,831 | \$ (847,848) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfer from other funds | \$ 583,457 | \$ 24,545 | \$ 152,570 | \$ 0 | \$ 372,981 | \$ 67,750 | \$ 4,865 | \$ 1,206,168 |
| Transfer to other funds | (272,968) | 0 | (96,023) | (17,800) | 0 | (308,680) | 0 | (695,471) |
| EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES | \$ 31,539 | \$ (4,307) | \$ (308) | \$ 36,446 | \$ 0 | \$ (425,217) | \$ 24,696 | \$ (337,151) |
| Fund balance - beginning | 349,891 | 205,576 | 43,606 | 251,796 | 0 | 771,716 | 19,824 | 1,642,409 |
| FUND BALANCE - ENDING | \$ 381,430 | \$ 201,269 | \$ 43,298 | \$ 288,242 | \$ 0 | \$ 346,499 | \$ 44,520 | \$ 1,305,258 |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

| | |
|---|-------------------------|
| Net change in fund balance - total governmental funds | \$ (337,151) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation. | (429,549) |
| Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt). | 255,553 |
| Increase in accrued interest not recorded as expenditure in governmental funds | (33,013) |
| Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities. | <u>(21,622)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ | <u><u>(565,782)</u></u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2008

| | TELEVISION UTILITY | ELECTRIC UTILITY | OAK CREST GOLF COURSE | WATER UTILITY | SEWER UTILITY | TOTAL |
|--|-----------------------|----------------------|--------------------------|---------------------|---------------------|----------------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and equivalents | \$ 0 | \$ 313,690 | \$ 0 | \$ 244,164 | \$ 0 | \$ 557,854 |
| Accounts receivable | 79,496 | 308,243 | 726 | 75,852 | 76,957 | 541,274 |
| Due from other funds | 0 | 446,132 | 0 | 0 | 0 | 446,132 |
| Due from other governmental units | 0 | 5,481 | 0 | 0 | 0 | 5,481 |
| Inventory | 0 | 120,129 | 0 | 37,495 | 13,078 | 170,702 |
| Prepaid expenses | 4,491 | 12,740 | 2,539 | 5,062 | 2,900 | 27,732 |
| TOTAL CURRENT ASSETS | \$ 83,987 | \$ 1,206,415 | \$ 3,265 | \$ 362,573 | \$ 92,935 | \$ 1,749,175 |
| Restricted Assets | \$ 0 | \$ 2,735,797 | \$ 0 | \$ 405,360 | \$ 15,735 | \$ 3,156,892 |
| Property, Plant and Equipment: | | | | | | |
| Utility plant and equipment | \$ 1,041,046 | \$ 17,466,459 | \$ 1,982,301 | \$ 6,323,739 | \$ 2,536,487 | \$ 29,350,032 |
| Less accumulated depreciation | (894,304) | (6,078,637) | (1,245,216) | (2,206,457) | (1,048,945) | (11,473,559) |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 146,742 | \$ 11,387,822 | \$ 737,085 | \$ 4,117,282 | \$ 1,487,542 | \$ 17,876,473 |
| Other Assets | \$ 0 | \$ 92,725 | \$ 0 | \$ 3,080 | \$ 0 | \$ 95,805 |
| TOTAL ASSETS | \$ 230,729 | \$ 15,422,759 | \$ 740,350 | \$ 4,888,295 | \$ 1,596,212 | \$ 22,878,345 |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable | \$ 45,894 | \$ 137,289 | \$ 11,465 | \$ 29,567 | \$ 9,870 | \$ 234,085 |
| Salaries and wages payable | 2,570 | 9,010 | 4,191 | 3,438 | 4,706 | 23,915 |
| Accrued taxes and withholdings | 846 | 12,346 | 926 | 263 | 1,496 | 15,877 |
| Accrued interest | 0 | 47,486 | 0 | 24,329 | 0 | 71,815 |
| Accrued benefits | 3,495 | 34,194 | 3,649 | 16,226 | 27,638 | 85,202 |
| Due to other funds | 35,204 | 0 | 150,760 | 0 | 260,168 | 446,132 |
| Security deposits | 0 | 84,243 | 0 | 0 | 0 | 84,243 |
| Current portion of long term liabilities | 0 | 337,677 | 0 | 78,000 | 12,280 | 427,957 |
| TOTAL CURRENT LIABILITIES | \$ 88,009 | \$ 662,245 | \$ 170,991 | \$ 151,823 | \$ 316,158 | \$ 1,389,226 |
| Long Term Liabilities | \$ 0 | \$ 7,640,000 | \$ 0 | \$ 3,109,000 | \$ 150,430 | \$ 10,899,430 |
| TOTAL LIABILITIES | \$ 88,009 | \$ 8,302,245 | \$ 170,991 | \$ 3,260,823 | \$ 466,588 | \$ 12,288,656 |
| NET ASSETS | | | | | | |
| Invested in capital assets - net of related debt | \$ 146,742 | \$ 3,410,145 | \$ 737,085 | \$ 930,282 | \$ 1,324,832 | \$ 6,549,086 |
| Restricted for debt service | 0 | 837,963 | 0 | 216,336 | 15,735 | 1,070,034 |
| Restricted for repairs and improvements | 0 | 1,897,834 | 0 | 189,024 | 0 | 2,086,858 |
| Restricted for inventory | 0 | 120,129 | 0 | 37,495 | 13,078 | 170,702 |
| Restricted for prepaid expenses | 4,491 | 12,740 | 2,539 | 5,062 | 2,900 | 27,732 |
| Restricted for bond discount | 0 | 92,725 | 0 | 3,080 | 0 | 95,805 |
| Unrestricted | (8,513) | 748,978 | (170,265) | 246,193 | (226,921) | 589,472 |
| TOTAL NET ASSETS | \$ 142,720 | \$ 7,120,514 | \$ 569,359 | \$ 1,627,472 | \$ 1,129,624 | \$ 10,589,689 |

The Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2008

| | TELEVISION UTILITY | ELECTRIC UTILITY | OAK CREST GOLF COURSE | WATER UTILITY | SEWER UTILITY | TOTAL |
|--|-----------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|
| OPERATING REVENUES | | | | | | |
| User charges | \$ 814,735 | \$ 3,763,725 | \$ 392,532 | \$ 779,508 | \$ 706,255 | \$ 6,456,755 |
| User penalties | 9,546 | 27,532 | 0 | 7,394 | 9,594 | 54,066 |
| Other | <u>5,926</u> | <u>0</u> | <u>3,112</u> | <u>33,000</u> | <u>0</u> | <u>42,038</u> |
| TOTAL OPERATING REVENUES | \$ 830,207 | \$ 3,791,257 | \$ 395,644 | \$ 819,902 | \$ 715,849 | \$ 6,552,859 |
| OPERATING EXPENSES | | | | | | |
| Generation, transmission, distribution and maintenance | \$ 702,392 | \$ 2,284,805 | \$ 349,094 | \$ 364,145 | \$ 575,831 | \$ 4,276,267 |
| Depreciation | <u>56,384</u> | <u>360,603</u> | <u>13,074</u> | <u>125,602</u> | <u>46,795</u> | <u>602,458</u> |
| TOTAL OPERATING EXPENSES | \$ <u>758,776</u> | \$ <u>2,645,408</u> | \$ <u>362,168</u> | \$ <u>489,747</u> | \$ <u>622,626</u> | \$ <u>4,878,725</u> |
| OPERATING INCOME (LOSS) | \$ 71,431 | \$ 1,145,849 | \$ 33,476 | \$ 330,155 | \$ 93,223 | \$ 1,674,134 |
| NON-OPERATING GAINS (LOSSES) | | | | | | |
| Interest | \$ 0 | \$ 151,390 | \$ 0 | \$ 14,054 | \$ 0 | \$ 165,444 |
| Other gains | 0 | 8,002 | 0 | 0 | 0 | 8,002 |
| Bond interest and fee payments | 0 | (250,413) | 0 | (150,129) | (8,981) | (409,523) |
| Bond discount amortization | 0 | (21,916) | 0 | (342) | 0 | (22,258) |
| Contributions, net of amortization | 0 | 0 | (44,183) | 0 | 0 | (44,183) |
| Gain (loss) on disposal of property and equipment | 0 | 0 | (7,730) | 0 | 0 | (7,730) |
| Grant proceeds | 0 | 0 | 0 | 30,113 | 50,494 | 80,607 |
| Grant amortization | 0 | 0 | 0 | (17,132) | (35,812) | (52,944) |
| NON-OPERATING TRANSFERS | | | | | | |
| From other funds | \$ 0 | \$ 0 | \$ 0 | \$ 48,807 | \$ 82,759 | \$ 131,566 |
| To other funds | <u>(64,223)</u> | <u>(356,951)</u> | <u>(42,782)</u> | <u>(107,511)</u> | <u>(70,796)</u> | <u>(642,263)</u> |
| NET INCOME (LOSS) | \$ 7,208 | \$ 675,961 | \$ (61,219) | \$ 148,015 | \$ 110,887 | \$ 880,852 |
| Net assets - beginning | <u>135,512</u> | <u>6,444,553</u> | <u>630,578</u> | <u>1,479,457</u> | <u>1,018,737</u> | <u>9,708,837</u> |
| NET ASSETS - ENDING | \$ <u>142,720</u> | \$ <u>7,120,514</u> | \$ <u>569,359</u> | \$ <u>1,627,472</u> | \$ <u>1,129,624</u> | \$ <u>10,589,689</u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

| | TELEVISION UTILITY | ELECTRIC UTILITY | OAK CREST GOLF COURSE | WATER UTILITY | SEWER UTILITY | TOTAL |
|--|-----------------------|---------------------|--------------------------|---------------------|--------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from customers | \$ 831,556 | \$ 3,759,023 | \$ 394,918 | \$ 836,181 | \$ 710,813 | \$ 6,532,491 |
| Payments to suppliers | (491,211) | (1,662,481) | (167,894) | (176,840) | (321,726) | (2,820,152) |
| Payments to or on behalf of employees | (216,150) | (708,946) | (184,610) | (227,774) | (319,725) | (1,657,205) |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | \$ 124,195 | \$ 1,387,596 | \$ 42,414 | \$ 431,567 | \$ 69,362 | \$ 2,055,134 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfer from (to) other funds | (64,223) | (356,951) | (42,782) | (58,704) | 11,963 | (510,697) |
| Other revenues | 0 | 8,002 | 0 | 0 | 0 | 8,002 |
| Loans from (repaid to) other funds | (55,045) | (246,132) | 43,728 | 0 | 6,675 | (250,774) |
| TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | \$ (119,268) | \$ (595,081) | \$ 946 | \$ (58,704) | \$ 18,638 | \$ (753,469) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Principal and interest paid on capital debt | \$ 0 | \$ (603,518) | \$ 0 | \$ (228,660) | \$ (21,261) | \$ (853,439) |
| Loan proceeds | 0 | 6,445,911 | 0 | 0 | 0 | 6,445,911 |
| Grant proceeds | 0 | 0 | 0 | 53,491 | 50,495 | 103,986 |
| Purchases of capital assets | (4,927) | (4,217,164) | (43,660) | (103,072) | (117,234) | (4,486,057) |
| Funding of restricted accounts | 0 | (2,338,419) | 0 | 0 | 0 | (2,338,419) |
| TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (4,927) | \$ (713,190) | \$ (43,660) | \$ (278,241) | \$ (88,000) | \$ (1,128,018) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Interest earned | \$ 0 | \$ 151,390 | \$ 0 | \$ 14,054 | \$ 0 | \$ 165,444 |
| NET INCREASE (DECREASE) IN CASH | \$ 0 | \$ 230,715 | \$ (300) | \$ 108,676 | \$ 0 | \$ 339,091 |
| Cash and equivalents - beginning | 0 | 82,975 | 300 | 135,488 | 0 | 218,763 |
| CASH AND EQUIVALENTS - ENDING | \$ 0 | \$ 313,690 | \$ 0 | \$ 244,164 | \$ 0 | \$ 557,854 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | | |
| Operating income (loss) | \$ 71,431 | \$ 1,145,849 | \$ 33,476 | \$ 330,155 | \$ 93,223 | \$ 1,674,134 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | | | | | |
| Depreciation | 56,384 | 360,603 | 13,074 | 125,602 | 46,795 | 602,458 |
| Change in Assets and Liabilities | | | | | | |
| Receivables - net | 1,349 | (32,234) | (726) | 16,279 | (5,036) | (20,368) |
| Due from other governmental units | 0 | (5,481) | 0 | 0 | 0 | (5,481) |
| Inventory | 0 | 41,411 | 0 | 210 | 670 | 42,291 |
| Prepaid expenses | 636 | 10,561 | 2,331 | 2,933 | 3,434 | 19,895 |
| Accounts payable | 240 | (105,919) | 1,142 | (15,953) | (64,762) | (185,252) |
| Accrued payroll expense | (443) | (13,216) | 489 | (3,180) | (3,352) | (19,702) |
| Accrued taxes and withholdings | (2,196) | (16,695) | (1,779) | (244) | (3,320) | (24,234) |
| Accrued benefits | (3,206) | (8,610) | (5,593) | (24,235) | 1,710 | (39,934) |
| Customer deposits | 0 | 11,327 | 0 | 0 | 0 | 11,327 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 124,195 | \$ 1,387,596 | \$ 42,414 | \$ 431,567 | \$ 69,362 | \$ 2,055,134 |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

| | | |
|----------------------|----|---------------------|
| Cash and equivalents | \$ | 0 |
| Due from other funds | | <u>2,744</u> |
| | \$ | <u><u>2,744</u></u> |

LIABILITIES

| | | |
|---------------------------------|----|---------------------|
| Due to other funds | \$ | 2,566 |
| Due to other governmental units | | <u>178</u> |
| | | |
| TOTAL LIABILITIES | \$ | <u><u>2,744</u></u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
FIDUCIARY FUND - TAX COLLECTIONS
STATEMENT OF CHANGES IN NET ASSETS
Year ended June 30, 2008

| | BALANCE | | | BALANCE |
|-----------------------------------|----------------------|----------------------------|----------------------------|------------------------|
| | 30-Jun-07 | ADDITIONS | DEDUCTIONS | 30-Jun-08 |
| ASSETS | | | | |
| Cash and equivalents | \$ 0 | \$ 278,781 | \$ 278,781 | \$ 0 |
| Due from other funds | 853 | 730,363 | 729,124 | 2,092 |
| Due from other governmental units | <u>0</u> | <u>361,428</u> | <u>360,776</u> | <u>652</u> |
| TOTAL ASSETS | \$ 853 | \$ 1,370,572 | \$ 1,368,681 | \$ 2,744 |
| LIABILITIES | | | | |
| Due to other funds | \$ 675 | \$ 218,353 | \$ 216,462 | \$ 2,566 |
| Due to other governmental units | <u>178</u> | <u>1,152,219</u> | <u>1,152,219</u> | <u>178</u> |
| TOTAL LIABILITIES | \$ <u>853</u> | \$ <u>1,370,572</u> | \$ <u>1,368,681</u> | \$ <u>2,744</u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

Current Assets:

| | |
|----------------------|---------------|
| Cash and equivalents | \$ 120,252 |
| Accounts receivable | 9,447 |
| Inventory | <u>63,743</u> |

TOTAL ASSETS \$ 193,442

LIABILITIES

Current Liabilities:

| | |
|---|--------------|
| Accounts payable | \$ 23,465 |
| Gift certificates payable | 13,660 |
| Accrued payroll, taxes and withholdings | 31,192 |
| Other accrued liabilities | <u>4,295</u> |

TOTAL LIABILITIES \$ 72,612

Net assets:

| | |
|--------------|----------------|
| Restricted | \$ 14,611 |
| Unrestricted | <u>106,219</u> |

TOTAL NET ASSETS \$ 120,830

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

| | | |
|---|----|-----------------------|
| OPERATING REVENUES - User charges | \$ | 413,703 |
| OPERATING EXPENSES - General operations and maintenance | | <u>400,646</u> |
| OPERATING INCOME | \$ | 13,057 |
| NON-OPERATING GAINS (LOSSES) | | |
| Interest earned | \$ | 437 |
| Miscellaneous income | | 47,602 |
| Transfer from City of Norway | | 10,000 |
| Transfer to Norway Building Authority | | <u>(73,249)</u> |
| TOTAL NON-OPERATING GAINS (LOSSES) | \$ | <u>(15,210)</u> |
| NET INCOME | \$ | (2,153) |
| Net assets - beginning | | <u>122,983</u> |
| NET ASSETS - ENDING | \$ | <u><u>120,830</u></u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
COMPONENT UNIT
OAK CREST GOLF CLUB, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

OPERATING ACTIVITIES

| | |
|--|--------------------------|
| Net income (loss) | \$ (2,153) |
| Change in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (6,400) |
| (Increase) decrease in inventory | 28,182 |
| Increase (decrease) in accounts payable | (2,037) |
| Increase (decrease) in gift certificates payable | 264 |
| Increase (decrease) in accrued payroll, taxes and withholdings | 8,471 |
| Increase (decrease) in other accrued liabilities | <u>(359)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 25,968 |
| Cash and equivalents - beginning | <u>94,284</u> |
| CASH AND EQUIVALENTS - ENDING | \$ <u><u>120,252</u></u> |

Notes to Financial Statements are an integral part of this statement.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Norway (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

BLENDED COMPONENT UNITS

The Norway Building Authority was established to finance the renovation, construction and equipping of the clubhouse at the Oak Crest Golf Course. All of the activity of the fund which consists solely of the debt service payments are transferred to the Debt Service Fund from the Oak Crest Golf Club, Inc. who is primarily responsible for the debt service payments. As such, the receipts and payments are recorded in the Debt Service Fund.

The Norway Utility Authority was established as a joint venture with the Township of Norway to provide financing for upgrades to the sewer system to the residents of the two jurisdictions. The City's portion of the debt is recorded on the records of the Sewer Fund and the Township payments are recorded as contributions and the debt services payments are recorded in their entirety within the fund.

Downtown Development Authority - The Downtown Development Authority is governed by a board which has been appointed by the City Council. For financial reporting purposes, the Downtown Development Authority is reported in a separate Special Revenue Fund.

Museum Fund - The Museum Fund is governed by a board that is appointed by the City Council. For financial reporting purposes, the Museum Fund is reported in a separate Special Revenue Fund.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Norway, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

OAK CREST GOLF CLUB, INC. - The Oak Crest Golf Club is governed by a separate commission that is elected by the membership. While the City Council sets membership fees and can limit membership totals, the Council does not approve budgets or expenses. Complete audited financial statements are available at the Oak Crest Golf Club in Norway, Michigan and the City Hall.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of December 1. Taxes levied on July 1 are payable in one installment by August 15 without penalty. The City bills and collects its own property taxes and also taxes for Dickinson County, the local school district and the intermediate school district. Collections and remittances of county and school taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 16.3942 mills for operations, 1.8000 mills for road improvements and 0.4000 mills for debt service on the Fire Truck obligation. These assessments generated net tax collections of \$764,081 recorded in the General Fund for operations, \$21,187 recorded in the General Fund for the Fire Truck debt, \$218,603 in the Downtown Development Authority and \$95,740 in the Local Street Fund.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Downtown Development Authority accounts for the receipts and expenditures associated with improvements to the designated Tax Incremental Financing District.

The Debt Service Fund is used to accumulate tax collections and other revenues that have been restricted for the payment of the general debt obligations of the City. Also recorded in the Fund is the actual payments of the principal, interest and related fees.

The Capital Project Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary funds).

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television/internet system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the activities of the Oak Crest Golf Course.

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

| | | | |
|---------------------|----------------|-----------------------|----------------|
| Buildings | 40 to 60 years | Building Improvements | 15 to 30 years |
| Television/Internet | 5 to 25 years | Electric System | 5 to 40 years |
| Golf Course | 15 to 40 years | Water and Sewer Lines | 40 to 60 years |
| Roads | 10 to 30 years | Other Infrastructure | 10 to 40 years |
| Vehicles | 3 to 5 years | Office Equipment | 5 to 7 years |
| Computer Equipment | 3 to 7 years | | |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences (Vacation, Personal and Sick Leave)– It is the government’s policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B–STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE B- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations In Budgetary Funds (continued)

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

| Fund/Activity | Actual | Budget | Variance | % |
|-------------------------------------|-----------|-----------|----------|----|
| General-Mayor/Council/Elections | \$ 66,279 | \$ 64,964 | \$ 1,315 | 2 |
| General-Admin/Finance/Legal | 628,839 | 596,933 | 31,906 | 5 |
| General-Parks and Recreation | 58,426 | 55,662 | 2,764 | 5 |
| Major Streets-Route Maintenance | 117,483 | 101,307 | 16,176 | 16 |
| Major Streets-Trunkline Maintenance | 12,584 | 11,337 | 1,247 | 11 |
| Local Streets - Construction | 243,553 | 0 | 243,553 | ~ |
| Local Streets - Route Maintenance | 45,591 | 34,659 | 10,932 | 32 |
| Local Streets - Winter Maintenance | 33,469 | 33,250 | 219 | 1 |
| Local Streets - Transfers out | 93,041 | 0 | 93,041 | ~ |
| Museum - Administration | 15,032 | 0 | 15,032 | ~ |

NOTE C-RESTATEMENT OF BEGINNING NET ASSETS

The City had inappropriately included the unfunded accrued actuarial pension liability as a liability for the determination of net assets in the prior fiscal year. As a result of this change, the beginning net assets of the City are restated as follows:

| | |
|---|---------------------|
| June 30, 2007 net assets as originally reported | \$11,865,506 |
| Less: Reclassification of debt from revenue bond - debt payable by other governmental entity | <u>110,010</u> |
| Restated June 30, 2007 Net Assets | <u>\$11,755,496</u> |

NOTE D - ACCUMULATED FUND DEFICITS

The City has no accumulated fund balance/retained earnings deficits as of June 30, 2008.

NOTE E - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE E – DEPOSITS AND INVESTMENTS (CONTINUED)

an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated two banks and one financial institution for the deposit of its funds along with an investment in the Upper Peninsula Power Producers Agency, LLC. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in any of the securities allowed under the Act. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-Type Activities | Fiduciary Funds | Total Primary Government | Component Unit |
|-------------------------|----------------------------|-----------------------------|--------------------|-----------------------------|-------------------|
| Cash & Cash Equivalents | \$ 557,432 | \$ 557,854 | \$ 0 | \$ 1,115,286 | \$ 120,252 |
| Restricted Assets | 431,243 | 3,156,892 | 0 | 3,588,135 | 0 |
| Total | <u>\$ 988,675</u> | <u>\$ 3,714,746</u> | <u>\$ 0</u> | <u>\$ 4,703,421</u> | <u>\$ 120,252</u> |

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$4,703,421 of which \$250,000 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance.

INVESTMENTS

These investments that are represented by specific identifiable investment securities are classified as to credit risk by the one of three categories. The City's investment falls into Category 1 which is held by the City in the City's Name. The investment is classified as Cash in the financial statements. The investment was a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$231,427 as of the June 30, 2008, and expects to receive an ongoing return of 12% per annum.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE F - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables as of June 30, 2008 follows:

| <u>Receivable</u> | <u>Payable</u> | <u>Amount</u> |
|----------------------|----------------|---------------|
| General | Television | \$ 35,204 |
| General | Golf | 150,760 |
| General | Sewer | 260,168 |
| Local Streets | Tax | 676 |
| Downtown Development | Tax | 1,891 |
| Electric | General | 446,132 |
| Tax | General | 2,092 |

NOTE G - CHANGES IN CAPITAL ASSETS

Capital asset activity for the City for the year ended June 30, 2008 was as follows:

| | Beginning | Additions | Disposals | Ending |
|---|---------------------|------------|-----------|----------------------|
| Governmental Funds | | | | |
| Assets not depreciated - Land | \$ 3,875,983 | \$ 167,750 | \$ 0 | \$ 4,043,733 |
| Assets depreciated | | | | |
| Buildings | 2,708,232 | 2,980 | 0 | 2,711,212 |
| Infrastructure | 10,550,152 | 277,722 | 0 | 10,827,874 |
| Equipment | 2,387,831 | 12,304 | 0 | 2,400,135 |
| Total at Historic Cost | \$19,522,198 | \$ 460,756 | \$ 0 | \$ 19,982,954 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | \$ 345,505 | \$ 75,403 | \$ 0 | \$ 420,908 |
| Infrastructure | 2,404,569 | 665,146 | 0 | 3,069,715 |
| Equipment | 1,385,930 | 149,756 | 0 | 1,535,686 |
| Total Accumulated Depreciation | \$ 4,136,004 | \$ 890,305 | \$ 0 | \$ 5,026,309 |
| Net Governmental Funds - Capital Assets | <u>\$15,386,194</u> | | | <u>\$ 14,956,645</u> |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE G - CHANGES IN CAPITAL ASSETS (CONTINUED)

| | Beginning | Additions | Disposals | Ending |
|--|-------------------------|-------------------|-------------------|-------------------------|
| Business Type Funds | | | | |
| Assets depreciated | | | | |
| Television/internet system | \$ 1,036,119 | \$ 4,927 | \$ 0 | \$ 1,041,046 |
| Electric utility system | 13,249,295 | 4,217,164 | 0 | 17,466,459 |
| Golf operations | 2,107,076 | 49,593 | 174,368 | 1,982,301 |
| Water utility system | 6,220,667 | 103,072 | 0 | 6,323,739 |
| Sewer utility system | <u>2,419,253</u> | <u>117,234</u> | <u>0</u> | <u>2,536,487</u> |
| Total at Historic Cost | \$25,032,410 | \$4,491,990 | \$ 174,368 | \$ 29,350,032 |
| Less Accumulated Depreciation for: | | | | |
| Television/internet system | \$ 837,920 | \$ 56,384 | \$ 0 | \$ 894,304 |
| Electric utility system | 5,718,034 | 360,603 | 0 | 6,078,637 |
| Golf operations | 1,348,663 | 63,192 | 166,639 | 1,245,216 |
| Water utility system | 2,063,723 | 142,734 | 0 | 2,206,457 |
| Sewer utility system | <u>966,338</u> | <u>82,607</u> | <u>0</u> | <u>1,048,945</u> |
| Total Accumulated Depreciation | <u>\$10,934,678</u> | <u>\$ 705,520</u> | <u>\$ 166,639</u> | <u>\$11,473,559</u> |
| Net Business Type Funds - Capital Assets | <u>\$14,097,732</u> | | | <u>\$17,876,473</u> |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|-------------------------------------|-----------------------|
| Governmental Activities | |
| General Government | \$ 81,047 |
| Public Safety | 39,419 |
| Public Works | 764,593 |
| Parks and Recreation | <u>5,246</u> |
| Total Governmental Activities | <u>\$ 890,305</u> |
| Business-Type Activities | |
| Television/internet system | \$ 56,384 |
| Electric utility system | 360,603 |
| Golf operations | 63,192 |
| Water utility system | 142,734 |
| Sewer utility system | <u>82,607</u> |
| Total Business-Type Activities | <u>\$ 705,520</u> |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE H - EMPLOYEE RETIREMENT

PLAN DESCRIPTION

The City has adopted an employees' Pension Plan of the Municipal Employees' Retirement System for all eligible employees. The varying levels of benefits are summarized in the plan documents and annual actuarial report on file at the City Hall. The plan is an agent multiple-employer pension plan. Normal retirement benefits are paid employees retiring at age 60 with 10 or more years of service.

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2007.

GASB 25 INFORMATION (as of 12/31/07)

Actuarial Accrued Liability:

| | |
|--|------------------|
| Retiree and beneficiaries currently receiving benefits | \$ 9,581,884 |
| Terminated employees not yet receiving benefits | 0 |
| Non-vested terminated employees | 9,996 |
| Current employees: | |
| Accumulated employee contributions including allocated investment income | 880,226 |
| Employer financed | <u>3,688,916</u> |
| Total Actuarial Liability | \$ 14,161,022 |
| Net assets available for benefits, at actuarial value (Market Value is \$7,418,339) | <u>8,491,144</u> |
| Unfunded (overfunded) actuarial accrued liability | \$ 5,669,878 |

GASB 27 INFORMATION (as of 12/31/07)

| | |
|-------------------------------------|--------------|
| Fiscal year beginning | July 1, 2009 |
| Annual required contributions (ARC) | \$ 426,360 |
| Amortization factor used | 0.055889 |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE I - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2008 is \$205,594, \$203,043 and \$9,962 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$77,877 as of June 30, 2008. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for vesting and/or accumulation of sick and vacation pay as follows:

Sick Leave - Earned at the rate of various days per year with an accumulation limit of 120 and a 35% vesting feature for AFSCME and AFL-CIO and a 40% vesting feature for IBEW - Supervisory and 150 days and a 35% vesting feature for IBEW - Electrical.

Vacation Leave - unlimited accumulation of unused days with 100% vesting.

Those amounts required to be accrued have been recorded in the various funds as follows:

| | <u>Amount</u> |
|------------------------|---------------|
| General Fund (current) | \$ 2,232 |
| Oak Crest Golf Course | 3,649 |
| Electric Utility | 33,165 |
| Water Utility | 15,489 |
| Sewer Utility | 27,639 |
| Television Utility | 3,489 |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT

NORWAY BUILDING AUTHORITY BONDS

The Norway Building Authority originally issued \$850,000 of revenue bonds during 1993 for the construction of a new golf clubhouse. The bonds are a primary obligation of the Norway Building Authority with the City being secondarily liable. Payment of the bonds began on September 1, 1993 and runs to September 1, 2014, with an interest rate varying from 5.75% to 8%.

The bonds were refinanced in September, 2003 in the amount of \$615,000 plus a three percent premium of \$18,450. Semi-annual payments of \$36,625 are due March 1 and September 1 through 2014.

Debt requirements to maturity are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|-----------------|----------------|
| 2008-2009 | \$ 55,842 | \$ 17,407 | \$ 73,249 |
| 2009-2010 | 58,320 | 14,929 | 73,249 |
| 2010-2011 | 60,908 | 12,341 | 73,249 |
| 2011-2012 | 63,612 | 9,637 | 73,249 |
| 2012-2013 | 66,435 | 6,814 | 73,249 |
| 2013-2015 | <u>105,221</u> | <u>4,653</u> | <u>109,874</u> |
| TOTALS | \$ 410,338 | \$ 65,781 | \$ 476,119 |

2001 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority issued \$995,000 of general obligation limited tax development bonds on April 1, 2001, for the development of the downtown area. Payment of the bonds begin in 2001 and run to 2023, with interest rates varying from 4.5% to 5.3%.

The bonds were originally sold in March, 2001 in the amount of \$995,000. Semi-annual payments are due December 1 and June 1 through 2023.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT (CONTINUED)

2001 DOWNTOWN DEVELOPMENT AUTHORITY BONDS (CONTINUED)

The cumulative debt service schedule is below:

| Payable Fiscal Year | June 1 | | December 1 | |
|------------------------|-------------------|-------------------|-------------------|---------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 22,838 | \$ 35,000 | \$ 22,837 | \$ 80,675 |
| 2009-2010 | 22,050 | 35,000 | 22,050 | 79,100 |
| 2010-2011 | 21,262 | 40,000 | 21,263 | 82,525 |
| 2011-2012 | 20,263 | 45,000 | 20,262 | 85,525 |
| 2012-2013 | 19,137 | 50,000 | 19,138 | 88,275 |
| 2013-2018 | 74,320 | 320,000 | 74,320 | 468,640 |
| 2018-2023 | 29,551 | 370,000 | 29,551 | 429,102 |
| TOTALS | \$ 209,421 | \$ 895,000 | \$ 209,421 | \$ 1,313,842 |

2005 DOWNTOWN DEVELOPMENT AUTHORITY BONDS

The Downtown Development Authority issued \$900,000 of general obligation limited tax development bonds on June 1, 2005, for the development of the downtown area. Payment of the bonds begin in 2005 and run to 2024, with interest rates varying from 3.5% to 5.0%.

The bonds were originally sold in June, 2005 in the amount of \$900,000 less a one percent discount of \$9,000. Semi-annual payments are due December 1 and June 1 through 2024.

The cumulative debt service schedule is below:

| Payable Fiscal Year | December 1 | | June 1 | |
|------------------------|-------------------|-------------------|-------------------|---------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 18,472 | \$ 15,000 | \$ 18,210 | \$ 51,682 |
| 2009-2010 | 18,210 | 20,000 | 17,860 | 56,070 |
| 2010-2011 | 17,860 | 25,000 | 17,423 | 60,283 |
| 2011-2012 | 17,422 | 30,000 | 16,898 | 64,320 |
| 2012-2013 | 16,898 | 35,000 | 16,285 | 68,183 |
| 2013-2018 | 72,949 | 255,000 | 67,996 | 395,945 |
| 2018-2023 | 39,724 | 410,000 | 30,516 | 480,240 |
| 2023-2024 | 2,125 | 85,000 | 0 | 87,125 |
| TOTALS | \$ 203,660 | \$ 875,000 | \$ 185,188 | \$ 1,263,848 |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT (CONTINUED)

FIRE HALL BONDS

The Norway Building Authority issued \$680,000 of bonds which were sold entirely to the Rural Development on May 17, 2001. The proceeds were used to construct a replacement fire hall to service the City of Norway and carry an interest rate of 4.75%.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City on any interest payment date at par and accrued interest to the date fixed for redemption.

The cumulative debt service schedule is below:

| Payable Fiscal Year | December 1 | | June 1 | | Total |
|------------------------|-------------------|-------------------|-------------------|-----------|----------------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 13,799 | \$ 18,000 | \$ 13,371 | \$ | 45,170 |
| 2009-2010 | 13,371 | 19,000 | 12,920 | | 45,291 |
| 2010-2011 | 12,920 | 20,000 | 12,445 | | 45,365 |
| 2011-2012 | 12,445 | 21,000 | 11,946 | | 45,391 |
| 2012-2013 | 11,946 | 22,000 | 11,423 | | 45,369 |
| 2013-2018 | 51,276 | 130,000 | 48,189 | | 229,465 |
| 2018-2023 | 33,844 | 175,000 | 29,688 | | 238,532 |
| 2023-2027 | 10,759 | 176,000 | 6,579 | | 193,338 |
| TOTALS | \$ 160,360 | \$ 581,000 | \$ 146,561 | \$ | 887,921 |

CITY HALL BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2001 for the demolition, equipping and replacement of the City Hall. Payment of the bonds begin in 2002 and run to 2021, with interest rates varying from 4.5% to 5.2%.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT (CONTINUED)

CITY HALL BONDS

The cumulative debt service schedule is below:

| Payable Fiscal Year | June 1 | | December 1 | |
|------------------------|-------------------|-------------------|-------------------|---------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 19,695 | \$ 40,000 | \$ 19,695 | \$ 79,390 |
| 2009-2010 | 18,795 | 45,000 | 18,795 | 82,590 |
| 2010-2011 | 17,783 | 45,000 | 17,782 | 80,565 |
| 2011-2012 | 16,770 | 50,000 | 16,770 | 83,540 |
| 2012-2013 | 15,470 | 50,000 | 15,470 | 80,940 |
| 2013-2018 | 56,030 | 305,000 | 56,030 | 417,060 |
| 2018-2021 | 12,740 | 240,000 | 12,740 | 265,480 |
| TOTALS | \$ 157,283 | \$ 775,000 | \$ 157,282 | \$ 1,089,565 |

2006 STREET IMPROVEMENT BONDS

The City issued \$995,000 of general obligation limited tax bonds on June 1, 2006 to construct, repair and improve its streets. Payment of the bonds begin in 2006 and run to 2021, with interest rates varying from 3.8% to 4.8%.

The cumulative debt service schedule is below:

| Payable Fiscal Year | June 1 | | December 1 | |
|------------------------|-------------------|-------------------|-------------------|---------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 19,339 | \$ 60,000 | \$ 19,339 | \$ 98,678 |
| 2009-2010 | 18,154 | 65,000 | 18,154 | 101,308 |
| 2010-2011 | 16,837 | 65,000 | 16,837 | 98,674 |
| 2011-2012 | 15,505 | 70,000 | 15,505 | 101,010 |
| 2012-2013 | 14,053 | 70,000 | 14,052 | 98,105 |
| 2013-2018 | 47,845 | 350,000 | 47,845 | 445,690 |
| 2018-2021 | 9,940 | 210,000 | 9,940 | 229,880 |
| TOTALS | \$ 141,673 | \$ 890,000 | \$ 141,672 | \$ 1,173,345 |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT (CONTINUED)

TRUCK BANK LOAN

The City borrowed \$207,431 on March 10, 2006 for the acquisition of trucks to be used in the Public Works Department. The loan calls for quarterly payments of \$8,698 beginning in May, 2006 and carries an interest rate of 4.5%. The loan has a balloon payment due on March 10, 2009, of \$135,228.

This loan was refinanced subsequent to year end to an installment loan contract to comply with the statutes of the State of Michigan.

The cumulative debt service schedule prior to the refinancing is below:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|-----------------|--------------|
| 2008-2009 | \$ 147,688 | \$ 4,840 | \$ 152,528 |

FIRE TRUCK BOND

The City borrowed a total \$215,000 using a draw schedule during the 2006-2007 year for the acquisition of and equipping a new fire truck. The loan calls for semi-annual payments of interest at the rate of 4.375% per annum and annual payments on the principal balance.

The cumulative debt service schedule is below:

| Payable Fiscal Year | October 1 | | April 1 | | Total |
|------------------------|-----------|------------|-----------|------------|-------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 4,484 | \$ 10,000 | \$ 4,266 | \$ 18,750 | |
| 2009-2010 | 4,266 | 10,000 | 4,047 | 18,313 | |
| 2010-2011 | 4,047 | 10,000 | 3,828 | 17,875 | |
| 2011-2012 | 3,828 | 12,500 | 3,555 | 19,883 | |
| 2012-2013 | 3,555 | 12,500 | 3,281 | 19,336 | |
| 2013-2018 | 13,125 | 75,000 | 11,484 | 99,609 | |
| 2018-2022 | 4,211 | 75,000 | 2,570 | 81,781 | |
| TOTALS | \$ 37,516 | \$ 205,000 | \$ 33,031 | \$ 275,547 | |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE J - GENERAL LONG TERM DEBT (CONTINUED)

NORWAY UTILITIES AUTHORITY

The Norway Utilities Authority originally issued \$1,010,000 of bonds which were sold entirely to the Farmers Home Administration (now Rural Development). The proceeds were used to improve, enlarge and extend a sewer disposal system to service the City of Norway and Township of Norway, each constituent members of the Authority. The bonds, dated June 6, 1978, carry an interest rate of 5.0%. The Township portion of these bonds are reflected in the governmental funds and the associated Township portion of the debt are scheduled below. The City's portion of the debt is shown in the Sewer Fund in Note L below.

Bonds maturing in the years 1989 to 2018, inclusive, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any interest payment date on or after August 1, 1988, at par and accrued interest to the date fixed for redemption.

The cumulative debt service schedule is below:

| Payable Fiscal Year | January 15 | | July 15 | | Total |
|------------------------|------------------|-------------------|------------------|-----------|----------------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 2,557 | \$ 7,720 | \$ 2,557 | \$ | 12,834 |
| 2009-2010 | 2,364 | 7,720 | 2,364 | | 12,448 |
| 2010-2011 | 2,171 | 9,650 | 2,171 | | 13,992 |
| 2011-2012 | 1,930 | 9,650 | 1,930 | | 13,510 |
| 2012-2013 | 1,689 | 9,650 | 1,689 | | 13,028 |
| 2013-2018 | 4,536 | 57,900 | 4,536 | | 66,972 |
| TOTALS | \$ 15,247 | \$ 102,290 | \$ 15,247 | \$ | 132,784 |

NOTE K- OPERATING LEASE

During the 2006-2007 year, the City entered into a lease agreement for the installation of various energy saving devices. The total obligation is up to \$655,000 with approximately \$440,000 expended as of the end of the fiscal year. The payments for this program will be made in ten annual lease payments of \$86,952.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE L - PROPRIETARY FUND LONG TERM DEBT

NORWAY UTILITIES AUTHORITY

The Norway Utilities Authority originally issued \$1,010,000 of bonds which were sold entirely to the Farmers Home Administration (now Rural Development). The proceeds were used to improve, enlarge and extend a sewer disposal system to service the City of Norway and Township of Norway, each constituent members of the Authority. The bonds, dated June 6, 1978, carry an interest rate of 5.0%.

Bonds maturing in the years 1989 to 2018, inclusive, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Authority on any interest payment date on or after August 1, 1988, at par and accrued interest to the date fixed for redemption.

The cumulative debt service schedule is below:

| Payable Fiscal Year | January 15 | | July 15 | | Total |
|------------------------|------------------|-------------------|------------------|-----------|----------------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 4,068 | \$ 12,280 | \$ 4,068 | \$ | 20,416 |
| 2009-2010 | 3,761 | 12,280 | 3,761 | | 19,802 |
| 2010-2011 | 3,454 | 15,350 | 3,453 | | 22,257 |
| 2011-2012 | 3,070 | 15,350 | 3,070 | | 21,490 |
| 2012-2013 | 2,686 | 15,350 | 2,686 | | 20,722 |
| 2013-2018 | 7,214 | 92,100 | 7,215 | | 106,529 |
| TOTALS | \$ 24,253 | \$ 162,710 | \$ 24,253 | \$ | 211,216 |

ELECTRIC UTILITY SYSTEM REVENUE BONDS

In 1982-1983, the City undertook a major construction project which included improvements to their existing electrical utility system. Specifically, this project included the purchase and installation of two 900 kilowatt generating units, transmission lines and auxiliary equipment and the construction of certain concrete structural improvements to the existing hydroelectric facility with an estimated cost of \$2,500,000.

The City initially borrowed \$ 2,290,000 from the Farmers Home Administration, an agency of the United States Government. The bonds were refinanced in 1987 and again in 1994.

The 1994 refinancing was a defeasance with the 1987 bonds being called in 1999. The bonds carry interest rates varying from 3.1% to 5.375%. The bonds are subject to redemption prior to maturity, in inverse order, at the City's option on any interest payment date, at par plus accrued interest to the date fixed for redemption.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE L - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC UTILITY SYSTEM REVENUE BONDS (CONTINUED)

The cumulative debt service schedule is below:

| Payable Fiscal Year | February 1 | | August 1 | | Total |
|------------------------|------------|------------|-----------|----|---------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 20,291 | \$ 175,000 | \$ 20,291 | \$ | 215,582 |
| 2009-2010 | 15,588 | 185,000 | 15,588 | | 216,176 |
| 2010-2011 | 10,615 | 190,000 | 10,615 | | 211,230 |
| 2011-2012 | 5,509 | 205,000 | 5,509 | | 216,018 |
| TOTALS | \$ 52,003 | \$ 755,000 | \$ 52,003 | \$ | 859,006 |

2002 ELECTRIC UTILITY SYSTEM REVENUE BONDS

The City issued \$995,000 of limited revenue bonds on June 3, 2002, for the updating of the power dam and automation of the plant. Payment of the bonds begin in 2002 and run to 2017, with interest rates varying from 4.3% to 5.15%.

The cumulative debt service schedule is below:

| Payable Fiscal Year | June 1 | | December 1 | | Total |
|------------------------|------------|------------|------------|----|-----------|
| | Interest | Principal | Interest | | |
| 2008-2009 | \$ 19,239 | \$ 45,000 | \$ 19,239 | \$ | 83,478 |
| 2009-2010 | 18,271 | 45,000 | 18,271 | | 81,542 |
| 2010-2011 | 17,270 | 50,000 | 17,270 | | 84,540 |
| 2011-2012 | 16,132 | 50,000 | 16,133 | | 82,265 |
| 2012-2013 | 14,970 | 120,000 | 14,970 | | 149,940 |
| 2012-2017 | 30,480 | 480,000 | 30,480 | | 540,960 |
| TOTALS | \$ 116,362 | \$ 790,000 | \$ 116,363 | \$ | 1,022,725 |

ELECTRIC EQUIPMENT LOAN

The City borrowed \$203,983 on January 20, 2006 for the purchase of trucks and trailers to be used in the Electric Department. This equipment had originally been leased by the City. The loan calls for quarterly payments of \$11,464 beginning in April, 2006 and carries an interest rate of 4.5%. The loan has a balloon payment due on January 20, 2009, of \$98,652. This loan was paid off after year end.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE L - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

ELECTRIC EQUIPMENT LOAN (CONTINUED)

The cumulative debt service schedule is below:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|-----------------|--------------|
| 2008-2009 | \$ 117,878 | \$ 3,702 | \$ 121,580 |

2007 ELECTRIC UTILITY SYSTEM REVENUE BONDS

The City issued \$6,315,000 of limited revenue bonds on August 3, 2007, for the updating of the power production and distribution capabilities of the Electric System. Payment of the bonds began on an interest only basis for three years. Principal payments begin in 2010 and run to 2034, with interest rates of 5.00%.

The cumulative debt service schedule is below:

| Payable | December 1 | | June 1 | |
|-------------|--------------|--------------|--------------|---------------|
| Fiscal Year | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 158,869 | \$ 0 | \$ 158,869 | \$ 317,738 |
| 2009-2010 | 158,869 | 0 | 158,869 | 317,738 |
| 2010-2011 | 158,869 | 5,000 | 158,744 | 322,613 |
| 2011-2012 | 158,744 | 5,000 | 158,619 | 322,363 |
| 2012-2013 | 158,619 | 50,000 | 157,369 | 365,988 |
| 2013-2018 | 771,469 | 470,000 | 759,794 | 2,001,263 |
| 2018-2023 | 670,593 | 1,220,000 | 639,756 | 2,530,349 |
| 2023-2028 | 496,606 | 1,585,000 | 456,250 | 2,537,856 |
| 2028-2033 | 275,625 | 2,040,000 | 224,624 | 2,540,249 |
| 2033-2035 | 35,250 | 940,000 | 11,750 | 987,000 |
| TOTALS | \$ 3,043,513 | \$ 6,315,000 | \$ 2,884,644 | \$ 12,243,157 |

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE L - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

1999 WATER UTILITY SYSTEM REVENUE BONDS

In 1987, the City issued revenue bonds in the amount of \$750,000 for the construction of improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon. During the 1998-1999 year, the bonds were refinanced through the Michigan Municipal Finance Authority. This refinancing reduced the interest to an effective interest rate of 5.012%.

The cumulative debt service schedule is below:

| Payable Fiscal Year | November 1 | | May 1 | |
|------------------------|------------------|-------------------|------------------|-------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 10,841 | \$ 30,000 | \$ 10,091 | \$ 50,932 |
| 2009-2010 | 10,091 | 35,000 | 9,199 | 54,290 |
| 2010-2011 | 9,199 | 35,000 | 8,289 | 52,488 |
| 2011-2012 | 8,289 | 40,000 | 7,229 | 55,518 |
| 2012-2013 | 7,229 | 40,000 | 6,169 | 53,398 |
| 2013-2018 | (980) | 245,000 | 12,851 | 256,871 |
| TOTALS | \$ 44,669 | \$ 425,000 | \$ 53,828 | \$ 523,497 |

1997 WATER UTILITY SYSTEM REVENUE BONDS

In 1997, the City authorized issuance of revenue bonds in the amount of \$3,172,000 for the purpose of making improvements, repairs and replacement to the City's water supply system. The bonds are not a general obligation of the City, but are payable solely from the net revenues of the Water Utility Fund and the entire amount was purchased by Rural Development, an agency of the United States Government. A statutory first lien has been created on the revenues of the system for the payment of said bonds and the interest thereon.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE L - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)

1997 WATER UTILITY SYSTEM REVENUE BONDS (CONTINUED)

The cumulative debt service schedule is below:

| Payable Fiscal Year | November 1 | | May 1 | |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| | Interest | Principal | Interest | Total |
| 2008-2009 | \$ 62,145 | \$ 48,000 | \$ 61,065 | \$ 171,210 |
| 2009-2010 | 61,065 | 50,000 | 59,940 | 171,005 |
| 2010-2011 | 59,940 | 53,000 | 58,748 | 171,688 |
| 2011-2012 | 58,748 | 55,000 | 57,510 | 171,258 |
| 2012-2013 | 57,510 | 57,000 | 56,228 | 170,738 |
| 2013-2018 | 267,007 | 328,000 | 259,627 | 854,634 |
| 2018-2023 | 226,620 | 409,000 | 217,417 | 853,037 |
| 2023-2028 | 176,333 | 509,000 | 164,880 | 850,213 |
| 2028-2033 | 113,670 | 634,000 | 99,405 | 847,075 |
| 2033-2037 | 35,572 | 619,000 | 21,645 | 676,217 |
| TOTALS | \$ 1,118,610 | \$ 2,762,000 | \$ 1,056,465 | \$ 4,937,075 |

NOTE M - SUBSEQUENT EVENTS

Subsequent to the end of the fiscal year, the City authorized issuance of Clean Renewable Energy Bonds (CREB) bonds in the amount of \$1,000,000 for the purpose of completing improvements to the City's Electric System which is based on hydropower. Certain portions of the project currently underway are not eligible to be financed with the proceeds from the CREB.

The completion of City's improvements to its Electric System have been substantially delayed. The contract with both the engineer and contractor on the project call for liquidated damages. The City anticipates having its project substantially completed not later than May 31, 2009. If that timeline is achieved the liquidated damages will exceed \$414,000. In addition, the City incurred additional engineering costs in the amount of \$120,446 which will also be added to the amount of liquidated damages.

NOTE N - RECLASSIFICATION

Certain reclassifications have been made in the 2007 comparative totals to conform to classifications used in 2008.

CITY OF NORWAY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE O - RISK MANAGEMENT

The City of Norway is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Norway maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--------------------------------------|--------------------------|--------------------------|--------------------------|---------------------------------|
| Beginning Fund Balance | \$ 349,891 | \$ 349,891 | \$ 349,891 | \$ 0 |
| Resources (Inflows) | | | | |
| Property taxes | 780,867 | 784,291 | 785,268 | 977 |
| State shared revenues and grants | 314,500 | 314,433 | 315,306 | 873 |
| Local grant | 49,000 | 15,000 | 15,000 | 0 |
| Fines and forfeitures | 7,000 | 7,000 | 7,069 | 69 |
| Charges for services | 260,721 | 258,007 | 254,315 | (3,692) |
| Interest and rentals | 180,000 | 180,000 | 219,913 | 39,913 |
| Sale of property | 1,000 | 32,641 | 32,821 | 180 |
| Other | 8,000 | 18,578 | 22,583 | 4,005 |
| Transfer from other funds | <u>583,457</u> | <u>583,457</u> | <u>583,457</u> | <u>0</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ <u>2,534,436</u> | \$ <u>2,543,298</u> | \$ <u>2,585,623</u> | \$ <u>42,325</u> |
| Charges to Appropriations (Outflows) | | | | |
| General Government | | | | |
| Mayor/Council/Elections | \$ 79,305 | \$ 64,964 | \$ 66,279 | \$ (1,315) |
| Administration/Finance/Legal | 555,891 | 596,933 | 628,839 | (31,906) |
| Buildings and grounds | 75,830 | 56,050 | 53,788 | 2,262 |
| Public Safety | | | | |
| Police | 507,747 | 497,907 | 469,881 | 28,026 |
| Fire | 114,251 | 108,337 | 107,327 | 1,010 |
| Public Works | | | | |
| Maintenance | 390,993 | 364,810 | 350,196 | 14,614 |
| Refuse | 166,983 | 181,294 | 170,571 | 10,723 |
| Parks and Recreation | 64,962 | 55,662 | 58,426 | (2,764) |
| Capital Outlay | 67,900 | 28,964 | 25,918 | 3,046 |
| Transfers to other funds | <u>153,536</u> | <u>273,103</u> | <u>272,968</u> | <u>135</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>2,177,398</u> | \$ <u>2,228,024</u> | \$ <u>2,204,193</u> | \$ <u>23,831</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u><u>357,038</u></u> | \$ <u><u>315,274</u></u> | \$ <u><u>381,430</u></u> | \$ <u><u>66,156</u></u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--------------------------------------|--------------------------|--------------------------|--------------------------|---------------------------------|
| Beginning Fund Balance | \$ 205,576 | \$ 205,576 | \$ 205,576 | \$ 0 |
| Resources (Inflows) | | | | |
| Federal grants | 0 | 24,545 | 0 | (24,545) |
| State shared revenues and grants | 238,500 | 232,001 | 221,336 | (10,665) |
| Interest earned | 5,000 | 3,500 | 3,896 | 396 |
| Transfers from other funds | <u>0</u> | <u>0</u> | <u>24,545</u> | <u>24,545</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 449,076 | \$ 465,622 | \$ 455,353 | \$ (10,269) |
| Charges to Appropriations (Outflows) | | | | |
| Construction | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Route maintenance | 93,780 | 101,307 | 117,483 | (16,176) |
| Traffic services | 16,177 | 17,177 | 15,783 | 1,394 |
| Winter maintenance | 58,648 | 107,946 | 108,191 | (245) |
| Administration | 11,248 | 11,248 | 43 | 11,205 |
| Trunkline maintenance | 8,090 | 11,337 | 12,584 | (1,247) |
| Transfers to other funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>187,943</u> | \$ <u>249,015</u> | \$ <u>254,084</u> | \$ <u>(5,069)</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u><u>261,133</u></u> | \$ <u><u>216,607</u></u> | \$ <u><u>201,269</u></u> | \$ <u><u>(15,338)</u></u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--------------------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|
| Beginning Fund Balance | \$ 43,606 | \$ 43,606 | \$ 43,606 | \$ 0 |
| Resources (Inflows) | | | | |
| Property taxes | 0 | 95,691 | 96,416 | 725 |
| Federal grants | 0 | 13,916 | 104,900 | 90,984 |
| State shared revenues and grants | 101,000 | 99,001 | 91,533 | (7,468) |
| Interest earned | 1,500 | 2,200 | 2,253 | 53 |
| Transfers from other funds | <u>0</u> | <u>0</u> | <u>152,570</u> | <u>152,570</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 146,106 | \$ 254,414 | \$ 491,278 | \$ 236,864 |
| Charges to Appropriations (Outflows) | | | | |
| Construction | \$ 0 | \$ 0 | \$ 243,553 | \$ (243,553) |
| Route maintenance | 55,100 | 34,659 | 45,591 | (10,932) |
| Traffic services | 6,827 | 4,427 | 3,305 | 1,122 |
| Winter maintenance | 37,265 | 59,696 | 59,450 | 246 |
| Administration | 0 | 1,000 | 58 | 942 |
| Transfers to other funds | <u>0</u> | <u>96,023</u> | <u>96,023</u> | <u>0</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>99,192</u> | \$ <u>195,805</u> | \$ <u>447,980</u> | \$ <u>(252,175)</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u><u>46,914</u></u> | \$ <u><u>58,609</u></u> | \$ <u><u>43,298</u></u> | \$ <u><u>(15,311)</u></u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN DEVELOPMENT AUTHORITY
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--------------------------------------|--------------------|-------------------|-------------------|---------------------------------|
| Beginning Fund Balance | \$ 251,796 | \$ 251,796 | \$ 251,796 | \$ 0 |
| Resources (Inflows) | | | | |
| Property taxes | 189,371 | 215,815 | 218,603 | 2,788 |
| Interest earned | 5,000 | 6,000 | 7,578 | 1,578 |
| Other | 0 | 0 | 0 | 0 |
| Transfers from other funds | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 446,167 | \$ 473,611 | \$ 477,977 | \$ 4,366 |
| Charges to Appropriations (Outflows) | | | | |
| Contracted services | \$ 7,200 | \$ 40,000 | \$ 40,406 | \$ (406) |
| Supplies and other | 0 | 700 | 647 | 53 |
| Debt service | 129,233 | 129,233 | 129,233 | 0 |
| Bond discount and administration | 2,500 | 1,649 | 1,649 | 0 |
| Transfers to other funds | <u>17,800</u> | <u>17,800</u> | <u>17,800</u> | <u>0</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>156,733</u> | \$ <u>189,382</u> | \$ <u>189,735</u> | \$ <u>(353)</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u>289,434</u> | \$ <u>284,229</u> | \$ <u>288,242</u> | \$ <u>4,013</u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--------------------------------------|--------------------------|--------------------------|--------------------------|---------------------------------|
| Beginning Fund Balance | \$ 771,716 | \$ 771,716 | \$ 771,716 | \$ 0 |
| Resources (Inflows) | | | | |
| Federal grants | 0 | 0 | 0 | 0 |
| Local grants | 0 | 92,097 | 500 | (91,597) |
| Sale of property | 20,000 | 0 | 0 | 0 |
| Contributions | 2,500 | 0 | 0 | 0 |
| Interest earned | 13,000 | 6,988 | 7,115 | 127 |
| Transfers from other funds | <u>0</u> | <u>67,750</u> | <u>67,750</u> | <u>0</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 807,216 | \$ 938,551 | \$ 847,081 | \$ (91,470) |
| Charges to Appropriations (Outflows) | | | | |
| Capital projects | \$ 30,000 | \$ 194,283 | \$ 191,286 | \$ 2,997 |
| Planning, administration and other | 5,500 | 617 | 616 | 1 |
| Transfers to other funds | <u>0</u> | <u>353,581</u> | <u>308,680</u> | <u>44,901</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>35,500</u> | \$ <u>548,481</u> | \$ <u>500,582</u> | \$ <u>47,899</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u><u>771,716</u></u> | \$ <u><u>390,070</u></u> | \$ <u><u>346,499</u></u> | \$ <u><u>(43,571)</u></u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
MUSEUM FUND
Year ended June 30, 2008

| | <u>ORIGINAL</u> <u>BUDGET</u> | <u>AMENDED</u> <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE WITH</u> <u>AMENDED BUDGET</u> |
|--------------------------------------|----------------------------------|---------------------------------|-------------------------|---|
| Beginning Fund Balance | \$ 19,824 | \$ 19,824 | \$ 19,824 | \$ 0 |
| Resources (Inflows) | | | | |
| Memberships | 0 | 0 | 2,015 | 2,015 |
| Local grant | 0 | 0 | 1,000 | 1,000 |
| Contributions | 0 | 0 | 30,847 | 30,847 |
| Interest earned | 0 | 0 | 420 | 420 |
| Sale of property | 0 | 0 | 20 | 20 |
| Other | 0 | 0 | 561 | 561 |
| Transfers from other funds | <u>0</u> | <u>0</u> | <u>4,865</u> | <u>4,865</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 19,824 | \$ 19,824 | \$ 59,552 | \$ 39,728 |
| Charges to Appropriations (Outflows) | | | | |
| Administration | \$ 0 | \$ 0 | \$ 15,032 | \$ (15,032) |
| Capital projects | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>0</u> | \$ <u>0</u> | \$ <u>15,032</u> | \$ <u>(15,032)</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u><u>19,824</u></u> | \$ <u><u>19,824</u></u> | \$ <u><u>44,520</u></u> | \$ <u><u>24,696</u></u> |

CITY OF NORWAY
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year ended June 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE WITH AMENDED BUDGET |
|--|--------------------|-------------------|-------------------|---------------------------------|
| Beginning Fund Balance | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Resources (Inflows) | | | | |
| Property taxes | 91,459 | 0 | 0 | 0 |
| Contribution from other governmental units | 76,615 | 76,614 | 76,615 | 1 |
| Interest earned | 1,000 | 0 | 0 | 0 |
| Transfers from other funds | <u>176,694</u> | <u>394,244</u> | <u>372,981</u> | <u>(21,263)</u> |
| AMOUNTS AVAILABLE FOR APPROPRIATION | \$ 345,768 | \$ 470,858 | \$ 449,596 | \$ (21,262) |
| Charges to Appropriations (Outflows) | | | | |
| Debt service | \$ 349,331 | \$ 383,905 | \$ 362,644 | \$ 21,261 |
| Lease payments | <u>0</u> | <u>86,952</u> | <u>86,952</u> | <u>0</u> |
| TOTAL CHARGES TO APPROPRIATIONS | \$ <u>349,331</u> | \$ <u>470,857</u> | \$ <u>449,596</u> | \$ <u>21,261</u> |
| BUDGETARY FUND BALANCE--ENDING | \$ <u>(3,563)</u> | \$ <u>1</u> | \$ <u>0</u> | \$ <u>(1)</u> |

CITY OF NORWAY
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2008

SCHEDULE OF FUNDING PROGRESS

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS | ACTUARIAL ACCRUED LIABILITY | UNFUNDED AAL (UAAL) | FUNDED RATIO | COVERED PAYROLL | UAAL AS A PERCENTAGE OF COVERED PAYROLL |
|--------------------------------|---------------------------------|-----------------------------------|---------------------------|-----------------|--------------------|--|
| 31-Dec-05 | 7,814,756 | 12,736,384 | 4,921,628 | 61% | 1,407,404 | 350% |
| 31-Dec-06 | 8,186,174 | 13,642,202 | 5,456,028 | 60% | 1,506,267 | 362% |
| 31-Dec-07 | 8,491,144 | 14,161,022 | 5,669,878 | 60% | 1,491,252 | 380% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

| YEAR ENDED | ANNUAL REQUIRED CONTRIBUTION | PERCENTAGE CONTRIBUTED |
|------------|------------------------------------|---------------------------|
| 31-Dec-05 | 322,977 | 100% |
| 31-Dec-06 | 409,192 | 100% |
| 31-Dec-07 | 400,539 | 100% |

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

| | |
|-------------------------------------|---------------------------------|
| ACTUARIAL COST METHOD | ENTRY AGE NORMAL |
| AMORTIZATION METHOD | LEVEL PERCENTAGE OF PAYROLL |
| AMORTIZATION PERIOD | 30 YEARS, OPEN |
| ASSET VALUATION METHOD | ADJUSTED 5 YEAR SMOOTHED MARKET |
| ACTUARIAL ASSUMPTIONS | |
| INVESTMENT RATE OF RETURN | 8.00% |
| PROJECTED SALARY INCREASES* | 4.5% - 8.16% |
| *INCLUDES MERIT/LONGEVITY INCREASES | 0% - 4.16% |
| INFLATION | 3% - 4% |
| OTHER | 1994 GROUP MORTALITY TABLE |

ADDITIONAL
INFORMATION

CITY OF NORWAY
ELECTRIC UTILITY FUND
BALANCE SHEET
June 30, 2008 and 2007

| | | <u>2008</u> | <u>2007</u> |
|--|-----------|--------------------------|----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and equivalents | \$ | 313,690 | \$ 82,975 |
| Accounts receivable | | 308,243 | 276,009 |
| Due from other funds | | 446,132 | 200,000 |
| Due from other governmental units | | 5,481 | 0 |
| Inventory | | 120,129 | 161,540 |
| Prepaid expenses | | <u>12,740</u> | <u>23,301</u> |
| TOTAL CURRENT ASSETS | \$ | 1,206,415 | \$ 743,825 |
| Restricted Assets: | | | |
| Bond reserve account | \$ | 837,963 | \$ 397,378 |
| Construction account | | <u>1,897,834</u> | <u>0</u> |
| TOTAL RESTRICTED ASSETS | \$ | 2,735,797 | \$ 397,378 |
| Property, Plant and Equipment: | | | |
| Electric system | \$ | 17,466,459 | \$ 13,249,295 |
| Less accumulated depreciation | | <u>(6,078,637)</u> | <u>(5,718,034)</u> |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ | 11,387,822 | \$ 7,531,261 |
| Other Asset - Bond discount | \$ | <u>92,725</u> | <u>\$ 114,641</u> |
| TOTAL ASSETS | \$ | <u>15,422,759</u> | <u>\$ 8,787,105</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ | 137,289 | \$ 243,208 |
| Salaries and wages payable | | 9,010 | 22,226 |
| Accrued taxes and withholdings | | 4,174 | 15,201 |
| Accrued benefits | | 34,194 | 42,804 |
| Sales tax payable | | 8,172 | 13,840 |
| Customer deposits | | 84,243 | 72,916 |
| Accrued interest | | 47,486 | 25,146 |
| Current portion of long term debt | | <u>337,677</u> | <u>244,534</u> |
| TOTAL CURRENT LIABILITIES | \$ | 662,245 | \$ 679,875 |
| Long Term Debt - Revenue bonds payable | | <u>7,640,000</u> | <u>1,662,677</u> |
| TOTAL LIABILITIES | \$ | 8,302,245 | \$ 2,342,552 |
| FUND EQUITY | | | |
| Retained earnings: | | | |
| Reserved | \$ | 2,735,797 | \$ 397,378 |
| Unreserved | | <u>4,384,717</u> | <u>6,047,175</u> |
| TOTAL FUND EQUITY | \$ | <u>7,120,514</u> | <u>\$ 6,444,553</u> |
| TOTAL LIABILITIES AND FUND EQUITY | \$ | <u>15,422,759</u> | <u>\$ 8,787,105</u> |

CITY OF NORWAY
ELECTRIC UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| User charges | \$ 3,763,725 | \$ 2,791,494 |
| User penalties | <u>27,532</u> | <u>22,105</u> |
| TOTAL OPERATING REVENUES | \$ 3,791,257 | \$ 2,813,599 |
| OPERATING EXPENSES | | |
| Generation, distribution and maintenance | \$ 2,284,805 | \$ 1,876,995 |
| Depreciation | <u>360,603</u> | <u>344,039</u> |
| TOTAL OPERATING EXPENSES | \$ 2,645,408 | \$ 2,221,034 |
| OPERATING INCOME | \$ 1,145,849 | \$ 592,565 |
| NON-OPERATING GAINS (LOSSES) | | |
| Interest income | \$ 151,390 | \$ 17,275 |
| Other income | 8,002 | 1,053,807 |
| Bond interest payments | (250,413) | (103,800) |
| Bond discount amortization | (21,916) | (21,916) |
| Transfer from other funds | 0 | 0 |
| Transfer to other funds | <u>(356,951)</u> | <u>(317,112)</u> |
| TOTAL NON-OPERATING GAINS (LOSSES) | \$ (469,888) | \$ 628,254 |
| NET INCOME | \$ 675,961 | \$ 1,220,819 |
| Retained earnings - beginning | <u>6,444,553</u> | <u>5,223,734</u> |
| RETAINED EARNINGS - ENDING | <u>\$ 7,120,514</u> | <u>\$ 6,444,553</u> |

CITY OF NORWAY
STATEMENT OF CASH FLOWS
ELECTRIC UTILITY FUND
Year ended June 30, 2008 and 2007

| | 2008 | 2007 |
|--|---------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 3,759,023 | \$ 2,794,907 |
| Payments to suppliers | (1,662,481) | (1,068,999) |
| Payments to or on behalf of employees | (708,946) | (721,510) |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | \$ 1,387,596 | \$ 1,004,398 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer from (to) other funds | \$ (356,951) | \$ (317,112) |
| Other revenues | 8,002 | 1,053,807 |
| Loans repaid (to) from other funds | (246,132) | 50,000 |
| TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | \$ (595,081) | \$ 786,695 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal and interest paid on capital debt | \$ (603,518) | \$ (535,370) |
| Loans proceeds | 6,445,911 | 194,814 |
| Purchases of capital assets | (4,217,164) | (1,205,673) |
| Funding of restricted accounts | (2,338,419) | (202,878) |
| TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (713,190) | \$ (1,749,107) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned | \$ 151,390 | \$ 17,275 |
| NET INCREASE (DECREASE) IN CASH | \$ 230,715 | \$ 59,261 |
| Cash and equivalents - beginning | 82,975 | 23,714 |
| CASH AND EQUIVALENTS - ENDING | \$ 313,690 | \$ 82,975 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income | \$ 1,145,849 | \$ 592,565 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation | 360,603 | 344,039 |
| Change in Assets and Liabilities | | |
| Receivables - net | (32,234) | (18,692) |
| Due from other governmental units | (5,481) | 0 |
| Inventory | 41,411 | (99,723) |
| Prepaid expenses | 10,561 | (7,351) |
| Accounts payable | (105,919) | 178,510 |
| Accrued payroll expense | (13,216) | 6,066 |
| Accrued taxes and withholdings | (11,027) | 950 |
| Accrued sales tax | (5,668) | 222 |
| Accrued benefits | (8,610) | (445) |
| Customer deposits | 11,327 | 8,257 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 1,387,596 | \$ 1,004,398 |

CITY OF NORWAY
ELECTRIC UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-------------------------|-------------------------|
| Generation, Distribution & Maintenance: | | |
| Salaries and wages | \$ 373,463 | \$ 416,688 |
| Employee benefits | 311,240 | 311,838 |
| Supplies and other | <u>1,600,102</u> | <u>1,148,469</u> |
| TOTAL GENERATION, DISTRIBUTION AND MAINTENANCE | \$ 2,284,805 | \$ 1,876,995 |
| Depreciation | <u>360,603</u> | <u>344,039</u> |
| TOTAL OPERATING EXPENSES | \$ <u>2,645,408</u> | \$ <u>2,221,034</u> |

**CITY OF NORWAY
WATER UTILITY FUND
BALANCE SHEET
June 30, 2008 and 2007**

| | 2008 | 2007 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 244,164 | \$ 135,488 |
| Accounts receivable | 75,852 | 92,131 |
| Due from other governmental units | 0 | 23,378 |
| Inventory | 37,495 | 37,705 |
| Prepaid expenses | 5,062 | 7,995 |
| TOTAL CURRENT ASSETS | \$ 362,573 | \$ 296,697 |
| Restricted Assets: | | |
| Revenue bond and interest redemption | \$ 43,336 | \$ 43,336 |
| Water supply replacement fund | 107,675 | 107,675 |
| Water supply improvement fund | 81,349 | 81,349 |
| Bond reserve - junior indenture | 173,000 | 173,000 |
| TOTAL RESTRICTED ASSETS | \$ 405,360 | \$ 405,360 |
| Property, Plant and Equipment: | | |
| Water system | \$ 6,323,739 | \$ 6,220,667 |
| Less accumulated depreciation | (2,206,457) | (2,063,723) |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 4,117,282 | \$ 4,156,944 |
| Other Asset - Bond discount | \$ 3,080 | \$ 3,422 |
| TOTAL ASSETS | \$ 4,888,295 | \$ 4,862,423 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | \$ 29,567 | \$ 45,520 |
| Salaries and wages payable | 3,438 | 6,618 |
| Accrued taxes and withholdings | 263 | 507 |
| Accrued benefits | 16,226 | 40,461 |
| Accrued interest | 24,329 | 26,860 |
| Current portion of long term debt | 78,000 | 76,000 |
| TOTAL CURRENT LIABILITIES | \$ 151,823 | \$ 195,966 |
| Long Term Debt - Revenue bonds payable | 3,109,000 | 3,187,000 |
| TOTAL LIABILITIES | \$ 3,260,823 | \$ 3,382,966 |
| FUND EQUITY | | |
| Contributed capital: | | |
| Municipality | \$ 59,520 | \$ 59,520 |
| Federal government | 269,442 | 256,461 |
| TOTAL CONTRIBUTED CAPITAL | \$ 328,962 | \$ 315,981 |
| Retained earnings: | | |
| Reserved | \$ 405,360 | \$ 405,360 |
| Unreserved | 893,150 | 758,116 |
| TOTAL RETAINED EARNINGS | \$ 1,298,510 | \$ 1,163,476 |
| TOTAL FUND EQUITY | \$ 1,627,472 | \$ 1,479,457 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 4,888,295 | \$ 4,862,423 |

CITY OF NORWAY
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES | | |
| User charges | \$ 779,508 | \$ 760,564 |
| User penalties | 7,394 | 7,162 |
| State grants | 0 | 7,206 |
| Hydrant rentals | <u>33,000</u> | <u>33,000</u> |
| TOTAL OPERATING REVENUES | \$ 819,902 | \$ 807,932 |
| OPERATING EXPENSES | | |
| Transmission, distribution and maintenance | \$ 364,145 | \$ 355,777 |
| Depreciation | <u>125,602</u> | <u>122,663</u> |
| TOTAL OPERATING EXPENSES | \$ <u>489,747</u> | \$ <u>478,440</u> |
| OPERATING INCOME | \$ 330,155 | \$ 329,492 |
| NON-OPERATING GAINS (LOSSES) | | |
| Interest | \$ 14,054 | \$ 8,416 |
| Bond interest payments | (150,129) | (156,342) |
| Bond discount amortization | (342) | (342) |
| Transfer from other funds | 48,807 | 0 |
| Transfer to other funds | <u>(107,511)</u> | <u>(96,215)</u> |
| TOTAL NON-OPERATING GAINS (LOSSES) | \$ <u>(195,121)</u> | \$ <u>(244,483)</u> |
| NET INCOME | \$ 135,034 | \$ 85,009 |
| Retained earnings - beginning | <u>1,163,476</u> | <u>1,078,467</u> |
| RETAINED EARNINGS - ENDING | <u>\$ 1,298,510</u> | <u>\$ 1,163,476</u> |

CITY OF NORWAY
STATEMENT OF CASH FLOWS
WATER UTILITY FUND
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 836,181 | \$ 798,910 |
| Payments to suppliers | (176,840) | (46,499) |
| Payments to or on behalf of employees | <u>(227,774)</u> | <u>(245,435)</u> |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | \$ 431,567 | \$ 506,976 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer from (to) other funds | \$ (58,704) | \$ (96,215) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal and interest paid on capital debt | \$ (228,660) | \$ (225,672) |
| Purchases of capital assets | (103,072) | (140,807) |
| Federal grant proceeds | 53,491 | 100,090 |
| Funding of restricted accounts | <u>0</u> | <u>(17,300)</u> |
| TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (278,241) | \$ (283,689) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned | \$ 14,054 | \$ 8,416 |
| NET INCREASE (DECREASE) IN CASH | \$ 108,676 | \$ 135,488 |
| Cash and equivalents - beginning | <u>135,488</u> | <u>0</u> |
| CASH AND EQUIVALENTS - ENDING | \$ <u>244,164</u> | \$ <u>135,488</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income | \$ 330,155 | \$ 329,492 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation | 125,602 | 122,663 |
| Change in Assets and Liabilities | | |
| Receivables - net | 16,279 | (9,022) |
| Inventory | 210 | (508) |
| Prepaid expenses | 2,933 | (3,193) |
| Accounts payable | (15,953) | 42,021 |
| Accrued payroll expense | (3,180) | 3,651 |
| Accrued taxes and withholdings | (244) | (740) |
| Accrued benefits | <u>(24,235)</u> | <u>22,612</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u>431,567</u> | \$ <u>506,976</u> |

CITY OF NORWAY
WATER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| Transmission, Distribution & Maintenance: | | |
| Salaries and wages | \$ 107,000 | \$ 140,590 |
| Employee benefits | 117,350 | 107,756 |
| Supplies and other | <u>139,795</u> | <u>107,431</u> |
| TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE | \$ 364,145 | \$ 355,777 |
| Depreciation | <u>125,602</u> | <u>122,663</u> |
| TOTAL OPERATING EXPENSES | \$ <u>489,747</u> | \$ <u>478,440</u> |

CITY OF NORWAY
SEWER UTILITY FUND
BALANCE SHEET
June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and equivalents | \$ 0 | \$ 0 |
| Accounts receivable | 76,957 | 71,921 |
| Due from other governmental units | 0 | 40,432 |
| Inventory | 13,078 | 13,748 |
| Prepaid expenses | <u>2,900</u> | <u>6,334</u> |
| TOTAL CURRENT ASSETS | \$ 92,935 | \$ 132,435 |
| Restricted Assets - bond reserve account | \$ 15,735 | \$ 15,735 |
| Property, Plant and Equipment: | | |
| Sewage plant, lines and vehicles | \$ 2,536,487 | \$ 2,419,253 |
| Less accumulated depreciation | <u>(1,048,945)</u> | <u>(966,338)</u> |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 1,487,542 | \$ 1,452,915 |
| TOTAL ASSETS | \$ <u>1,596,212</u> | \$ <u>1,601,085</u> |
| LIABILITIES AND FUND EQUITY | | |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | \$ 9,870 | \$ 74,632 |
| Salaries and wages payable | 4,706 | 8,058 |
| Accrued taxes and withholdings | 1,496 | 4,816 |
| Due to other funds | 260,168 | 293,925 |
| Accrued benefits | 27,639 | 25,927 |
| Current portion of long term debt | <u>12,280</u> | <u>12,280</u> |
| TOTAL CURRENT LIABILITIES | \$ 316,159 | \$ 419,638 |
| Long Term Debt - Revenue bonds payable | \$ <u>150,430</u> | \$ <u>162,710</u> |
| TOTAL LIABILITIES | \$ 466,589 | \$ 582,348 |
| FUND EQUITY | | |
| Contributed capital | | |
| Municipality | \$ 78,000 | \$ 78,000 |
| Federal government | <u>432,312</u> | <u>417,631</u> |
| TOTAL CONTRIBUTED CAPITAL | \$ 510,312 | \$ 495,631 |
| Retained earnings: | | |
| Reserved | \$ 31,713 | \$ 35,817 |
| Unrestricted, undesignated | <u>587,598</u> | <u>487,289</u> |
| TOTAL RETAINED EARNINGS | \$ 619,311 | \$ 523,106 |
| TOTAL FUND EQUITY | \$ <u>1,129,623</u> | \$ <u>1,018,737</u> |
| TOTAL LIABILITIES AND FUND EQUITY | \$ <u>1,596,212</u> | \$ <u>1,601,085</u> |

CITY OF NORWAY
SEWER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL AND BUDGET
 Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------------------|---------------------------------|
| OPERATING REVENUES | | |
| User charges | \$ 706,255 | \$ 705,556 |
| User penalties | <u>9,594</u> | <u>9,504</u> |
| TOTAL OPERATING REVENUES | \$ 715,849 | \$ 715,060 |
| OPERATING EXPENSES | | |
| Transmission, distribution and maintenance | \$ 575,831 | \$ 532,970 |
| Depreciation | <u>46,795</u> | <u>45,501</u> |
| TOTAL OPERATING EXPENSES | \$ <u>622,626</u> | \$ <u>578,471</u> |
| OPERATING INCOME | \$ 93,223 | \$ 136,589 |
| NON-OPERATING GAINS (LOSSES) | | |
| Interest earned | \$ 0 | \$ 0 |
| Bond interest and fee payments | (8,981) | (9,594) |
| Transfers from other funds | 82,759 | 10,592 |
| Transfers (to) other funds | <u>(70,796)</u> | <u>(75,890)</u> |
| TOTAL NON-OPERATING GAINS (LOSSES) | \$ <u>2,982</u> | \$ <u>(74,892)</u> |
| NET INCOME | \$ 96,205 | \$ 61,697 |
| Retained earnings - beginning | <u>523,106</u> | <u>461,409</u> |
| RETAINED EARNINGS - ENDING | \$ <u><u>619,311</u></u> | \$ <u><u>523,106</u></u> |

CITY OF NORWAY
STATEMENT OF CASH FLOWS
SEWER UTILITY FUND
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|-------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 710,813 | \$ 702,962 |
| Payments to suppliers | (321,726) | (172,430) |
| Payments to or on behalf of employees | <u>(319,725)</u> | <u>(300,615)</u> |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | \$ 69,362 | \$ 229,917 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer (to) other funds | \$ 11,963 | \$ (65,298) |
| Loans received from (repaid to) other funds | <u>6,675</u> | <u>(81,011)</u> |
| TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | \$ 18,638 | \$ (146,309) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal, interest and fees paid on capital debt | \$ (21,261) | \$ (21,874) |
| Federal grant proceeds | 50,495 | 182,252 |
| Purchases of capital assets | <u>(117,234)</u> | <u>(243,986)</u> |
| TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (88,000) | \$ (83,608) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned | \$ <u>0</u> | \$ <u>0</u> |
| NET INCREASE (DECREASE) IN CASH | \$ 0 | \$ 0 |
| Cash and equivalents - beginning | <u>0</u> | <u>0</u> |
| CASH AND EQUIVALENTS - ENDING | \$ <u>0</u> | \$ <u>0</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Operating income | \$ 93,223 | \$ 136,589 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation | 46,795 | 45,501 |
| Change in Assets and Liabilities | | |
| Receivables - net | (5,036) | (12,098) |
| Inventory | 670 | (5,559) |
| Prepaid expenses | 3,434 | (1,226) |
| Accounts payable | (64,762) | 66,941 |
| Accrued payroll expense | (3,352) | 923 |
| Accrued taxes and withholdings | (3,320) | (544) |
| Accrued benefits | <u>1,710</u> | <u>(610)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u>69,362</u> | \$ <u>229,917</u> |

CITY OF NORWAY
SEWER UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| Transmission, Distribution & Maintenance: | | |
| Salaries and wages | \$ 193,540 | \$ 187,325 |
| Employee benefits | 121,223 | 113,059 |
| Supplies and other | <u>261,068</u> | <u>232,586</u> |
| TOTAL TRANSMISSION, DISTRIBUTION AND MAINTENANCE | \$ 575,831 | \$ 532,970 |
| Depreciation | <u>46,795</u> | <u>45,501</u> |
| TOTALS | \$ <u>622,626</u> | \$ <u>578,471</u> |

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norway, Michigan (City) as of and for the year ended June 30, 2008, which collectively comprise the City of Norway, Michigan's basic financial statements and have issued my report thereon dated December 1, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

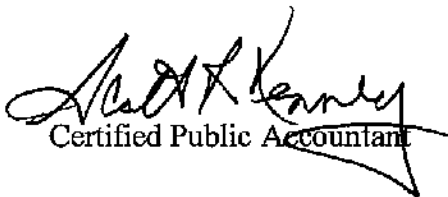
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated December 1, 2008.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.



Certified Public Accountant

December 1, 2008

SCOTT R. KENNEY

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Honorable Mayor and City Council
City of Norway
915 Main Street
Norway, MI 49870

In conjunction with the audit of the general purpose financial statements of the City of Norway (City) as of and for the year ended June 30, 2008, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 112 (SAS 112) requires that I inform the City of all significant control deficiencies and those control deficiencies be split into one of two types. The two types of control deficiencies are "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The first four comments are repeated from the prior year.

Significant Deficiencies

1. **OBSERVATION** - The City has not adopted a capitalization policy for equipment and/or capital projects. This policy would assist management in properly classifying expenditures into the correct accounts.

RECOMMENDATION - I strongly recommend that the City adopt a formal capitalization policy. Fixed assets with an expected useful life of more than one year and a cost of \$2,000 or more should be capitalized. This policy then needs to be forwarded to department heads for their implementation. In addition, budgets should be reviewed and amended as required utilizing the newly implemented policy.

2. **OBSERVATION** - When the detailed utility accounts receivable were examined, I noted that several of the accounts are severely delinquent.

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2. **RECOMMENDATION** - I recommend that management conduct a thorough review of each of the accounts that are delinquent and take the appropriate action to collect the utility bills. This may include placing the account with a collection agency or placing the billing on the customer property tax assessment.

3. **OBSERVATION** - Management directed that a physical inventory be taken in all departments. The directive was complied with in all departments. Again this year, the electric department inventory included several pricing/extension errors that resulted in the inventory being overstated by more than \$200,000 before being adjusted.

RECOMMENDATION - I recommend that all departments take a physical inventory not less than annually at the end of the fiscal year, that the inventory be accurately priced (using historic costs values), extended and footed. In addition, capitalized items should be separated from items that are charged to expenditure/expense accounts to properly state the inventory value.

4. **OBSERVATION** - The utility billing/receipting functions are primarily centralized in one person. The lack of separation of duties in this function provides poor control.

RECOMMENDATION - I recommend that the City continue to review its internal control in the utility areas and make adjustments to the policies and procedures to strengthen the controls where cost justified.

5. **OBSERVATION** - The City Council and Department Heads have not prepared a conflict of interest statement. During the year, several instances of abstaining from voting was noted in the Council minutes.

RECOMMENDATION - I recommend that all the City Council and all management personnel prepare written conflict of interest statements. These statements should be reviewed and considered when making recommendations or decisions for the City.

6. **OBSERVATION** - In examining the City's equipment rental documents, several errors were noted in recording of time and/or summarizing the records.

RECOMMENDATION - I recommend that the City modify its equipment rental forms to assure that the recorded time is appropriately summarized and charged to the various funds.

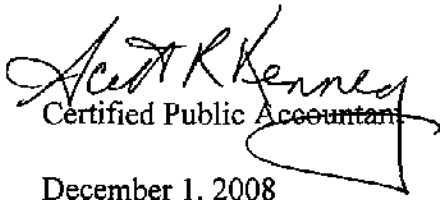
7. **OBSERVATION** - The City has adopted a policy using work orders for time/material charges when appropriate. This has been adopted in all departments except the Electric Department.

RECOMMENDATION - I recommend that the Electric Department adopt the work order system that has been used in the other City departments. This provides important internal control and assures collection for the services.

Material Weaknesses - None.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Ray, Mary, the office staff and the department heads for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

December 1, 2008